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THE JOURNAL OF
THE INSTITUTE OF CHARTERED ACCOUNTANTS
IN ENGLAND AND WALES

NOVEMBER 1961

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The Institute of Chartered Accountants in England and Wales

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Professional Notes

Public Investment

THE CHANNELLING OF investment into the most profitable areas is an essential part of good management; it is an equally important part of good government, though the difficulties involved are a thousand times greater. At October 1, 1961, Government approval had been given for the expenditure (on capital items only) of £1,840 million in respect of the year 1962/63. This is itself a vast sum, equalling over 60 per cent of the total of all Inland Revenue duties (income tax, surtax, death duties, stamp duties, profits tax, etc.) imposed in 1959/60. But the amount involved is not the main problem. Within the public sector it is possible to distinguish two main groups: (1) the nationalised industries and public corporations, and (2) the public services run by central government and local authorities; and it is the control of the expenditure

to be incurred by the many hundreds, if not thousands, of spending units, that is the difficulty.

In April, 1961, the Government published a White Paper entitled *The Financial and Economic Obligations of the Nationalised Industries* (see ACCOUNTANCY, April, 1961, page 187) clarifying the financial responsibilities of the nationalised industries in order to provide a firmer framework for their future operations. It was clearly laid down that, while the authorisation of proposals for investment and borrowing by the nationalised industries would continue as before, proposals for fresh investment must be judged not only against the need for essential supplies and services but also by their contribution to financial performance. The government does not seek in general to control the individual projects of nationalised industries, but is concerned primarily with the scale and trend of

long-term programmes and aggregates of expenditure.

Commercial profitability as normally understood is often not relevant to public service capital expenditure: expenditure decisions have to be taken on broad grounds of public interest. The problem is complicated by the great variety of programmes, the criteria which govern them, and the methods by which they are administered. Some are financed wholly from Votes and are the direct responsibility of the government department concerned; an example is the motorways. Others, though financed from Votes, are carried out by non-departmental bodies such as Regional Hospital Boards. Local authority programmes are in general financed by local authority borrowing, though in some special cases (such as housing) the service of the capital is subsidised by special Exchequer grants. In others (such as education) it is subsidised indirectly through the general grant; and in yet others, it is borne entirely by the local authority. These programmes are administered by the local authorities, subject to varying degrees of supervision by the responsible department.

It follows that the methods which the government employs to influence the various kinds of public service capital expenditure differ greatly. A brief description of government control over public investment programmes was given in paragraphs 11 and 12 of another White Paper: *Public Investment in Great Britain* (Cmnd. 1203).

Public Investment in Great Britain, October, 1961 (Cmnd. 1522) tells us where the money goes. By far the biggest spenders are the Electricity Council and Area Boards, which seek to spend £397 million in 1962/63. Housing, including new towns and housing associations, will take £272 million, the British Transport Commission £177 million and education £169 million. Motorists will be delighted to see that the planned expenditure on roads is £113.5 million, compared with £72.8 million the year before last. The major part of this increase is upon motorways and trunk roads, expenditure on which has risen from £41.8 million in 1959/60 to

a proposed £70.4 million in 1962/63. Another government undertaking seeking more capital is the Post Office, which plans to spend £118 million next year, nearly £95 million of which will go on telecommunications plant, machinery and ships.

The task of the government in assessing all these needs and controlling capital spending is an unenviable one, and one on which the man in the street is still comparatively uninformed. Not until there is, and is seen to be, the strictest control over every project will stories of extravagance and waste cease to be current.

Practical Steps to Improve Financial Statements

THE NORMAL ASSUMPTION is that members of the Institute are fully familiar with practice and standards in the preparation of financial statements. Such matters as the purpose of accounting principles and the recommendations of the Institute on what those principles should be are—perhaps too politely—taken to be common knowledge. The assumption is even more readily made in cases such as that of the treatment of stock-in-trade and work in progress, which has been the subject of much public discussion in recent months in the pages of *ACCOUNTANCY* and elsewhere. But even the most conscientious member might be grateful for a summary of these matters such as that recently given by a past-President of the Institute, Mr. W. H. Lawson, C.B.E., B.A., F.C.A., at the Annual Conference of the Canadian Institute of Chartered Accountants. Moreover, Mr. Lawson put forward a programme of future topics for research which, if they are not already in hand, deserve close attention from those responsible for fixing research programmes.

Mr. Lawson's opening statement was itself an indication of the kind of changes that may take place in a relatively short time. "Before the war there was little co-ordinated action in the United Kingdom for the improvement of the standards of preparing financial statements. There was a great deal of individual

thought and effort which found expression in lectures and papers; some leading industrial companies took a pride in producing informative accounts, including consolidated accounts which were not then a statutory requirement, but there was no organised accounting research." Since the foundation of the Taxation and Research Committee in 1942 the Council has issued a series of Recommendations on Accounting Principles, at the rate of one or two new Recommendations each year. Pointing out that "it is recognised that the form in which accounts are submitted to shareholders is (subject to compliance with the Companies Act) a matter within the discretion of the directors," Mr. Lawson went on to emphasise that Recommendations have been generally accepted and are adopted by the great majority of companies. Some of the earlier Recommendations were in fact incorporated in the Companies Act, 1948, and the Recommendations as a whole have made a tremendous impact on the standards of annual accounts for shareholders.

After discussing briefly the purpose of accounting principles—which, he suggests, is to determine the amount of profit available for shareholders and thus safeguard the rights of different classes of shareholders and protect creditors by ensuring that the capital is maintained—Mr. Lawson proceeded to comment upon "the more interesting of the Institute's Recommendations." He began with Recommendation XXII on the Treatment of Stock-in-Trade and Work in Progress in Financial Accounts, and spent some time on the *Duple Motor Bodies* case and the question of the inclusion of overheads in stock and work in progress, concluding:

It would seem, therefore, that it is not possible for those who now include overhead expenses to exclude them without resistance from the taxation authorities. It is also not normally possible for those who employ the direct cost method to change to an overhead basis without incurring additional taxation. Thus, taxation tends to favour the *status quo* and this has to be taken into account in any efforts which may be made to bring about a greater degree of uni-

formity in treatment of stock and work in progress in annual accounts. I believe that there should be further research into this important matter and that our aim should be to include or exclude overhead expenses in accordance with the requirements of sound accounting principles and then persuade the Inland Revenue to accept the same principles.

Mr. Lawson discussed the treatment of taxation in accounts, showing that—despite the recommendation of the Institute to the Royal Commission on Taxation of Profits and Income in 1952 that legislation be introduced to provide that profits for taxation purposes should be computed in accordance with accepted accounting principles—the law has moved quite strongly in the opposite direction and “there is now a great difference between accounting profits and taxation profits.”

With decisions such as *Westburn Sugar Refineries Ltd. v. Inland Revenue* in the Scottish Courts in 1960—which held that a surplus was not a distributable sum since it represented merely an unrealised increment in the value of certain assets—and that of Mr. Justice Buckley in the English case of *Dimbula Valley (Ceylon) Tea Co. Ltd. v. Laurie & Another*—who, considering the rights of different classes of shareholders, decided that the company could legally distribute an unrealised capital surplus by way of dividend—it is scarcely surprising, Mr. Lawson suggests, that the Jenkins Committee has been asked by professional accountants and others to recommend that the law be clarified.

He concluded his address by suggesting five “urgent matters for further research”:

1. The principles which should govern the inclusion of overhead expenses in the cost of stock and work in progress.
2. The circumstances, if any, in which the current values of fixed assets should be stated in the balance sheet. This involves consideration of the purpose of the balance sheet.
3. What precisely do we mean by the principle of realisation, and how should it be interpreted in calculating revenue and capital profits in a

variety of different circumstances?

4. What further steps can be taken to deal with the difference between accounting profits and taxation profits?

5. What information, if any, should be given to shareholders about the effects of inflation on the business?

Accountantsdag 1961

THE ANNUAL ACCOUNTANTS DAG of the Nederlands Instituut van Accountants, held at the Kurhaus, Scheveningen, this year, was the forty-fourth in this series. In his opening speech, Mr. H. C. Treffers, President of the Nederlands Instituut, spoke of the draft bill on registration of accountants, on which the report of the Parliamentary Committee submitted its final report last July. The Institute has expressed its agreement with the bill, he said, (i) because it provides guarantees for the required level of expert knowledge in the accountants who will issue their certificates under the qualification indicated in the act, and (ii) because it recognises that good professional rules and a professional jurisdiction are a further guarantee for proper professional standards.

To uphold these principles, Mr. Treffers insisted, is not just to protect the interests of accountants. On the contrary, it is a necessary condition which must be met if a statutory regulation of the accounting profession is to fulfil its social purpose. It would obviously be wrong to subject persons to professional rules and to a disciplinary jurisdiction if their level of expert knowledge was inadequate.

The main subjects for discussion at the conference may surprise some British accountants by their distance from the realm of practice—“Structural changes in international monetary relations”, introduced by Prof. Dr. G. M. Verrijn Stuart, Director of the Board of N. V. Amsterdamsche Bank, and “Automatic data processing: a phase in the development of accounting techniques and concepts”, by Mr. A. B. Frieling, a member of the Nederlands Instituut van Accountants.

The Accountantsdag ended with a dinner in the banquet hall of the

Kurhaus. After-dinner speeches included one by Mr. P. F. Granger, F.C.A., President of The Institute of Chartered Accountants in England and Wales, who proposed the toast of H.M. the Queen and the Royal Family.

New Member of Council



Mr. R. G. Slack, M.A., F.C.A.

WE HAVE pleasure in congratulating Mr. Ralph Gordon Slack, M.A., F.C.A., on his election as a member of the Council of The Institute of Chartered Accountants in England and Wales. Mr. Slack is a partner in the firm of Carlill, Burkinshaw & Ferguson, Chartered Accountants, Hull.

He was educated at the Leys School and Trinity College, Cambridge, and served his articles with Mr. W. C. Burkinshaw, becoming a member of the Institute in 1935. He was admitted to partnership in the firm in 1939.

Throughout World War II Mr. Slack served in the Royal Artillery, in which he attained the rank of major.

He is President for this year of the Hull, East Yorkshire and Lincolnshire Society of Chartered Accountants.

Mr. Slack has been a keen player of games, including hockey (to county trial standard) and golf.

New President of American Institute

MR. JOHN W. QUEENAN, of Greenwich, Conn., was elected President of the American Institute of Certified Public Accountants at its 74th annual meeting in Chicago last month. Mr. Queenan, a former vice-president of the Institute, is managing partner of the international accounting firm of Haskins & Sells, with headquarters in New York. He began his accounting career with the firm on graduating from the University of Illinois. Since becoming a member of the Institute in 1936 he has served on many committees, and he is vice-president of the New York State Society of C.P.A.'s.

The three new vice-presidents elected were Mr. Richard L. Barnes, Florida; Mr. Richard S. Claire, Illinois; Mr. Thomas D. Flynn, New York. Mr. Roger Wellington, Massachusetts, was elected treasurer.

A New Approach to Highway Investment

GOOD ROAD COMMUNICATIONS do more than reduce the cost of transport. They open up new areas, encourage industry to expand and disperse, make it easier for population to move, and increase regional production and commercial activity. "Present conventional methods of assessing the economic value of roads tell nothing like the full story of the pervasive economic improvement which stems from new or better roads," said Mr. Christopher T. Brunner, Chairman of the London Office of the International Road Federation, addressing the Institution of Highway Engineers in London early this month. What is needed is a method by which all the benefits that a road development confers upon the economy and the community can be assessed, so that the full advantages and the return on the investment can be clearly appreciated.

To the outsider this looks like a problem for the accountant. If it is, he has not solved it. Probably he feels that this is where the economist comes into his own. Certainly economists have made attempts to find a solution, producing dozens of inter-

related mathematical equations, which they term a model. The snag is that no one really knows the values of the various factors, which are in any event continually changing.

Perhaps, one day when traffic has finally ground to a halt, someone will at last hit upon a reasonable method of assessing the value of communications.

The Measurement of Performance in Business

"HOW MANY COMPANIES know with reasonable accuracy:

- (a) the size of the market they serve;
- (b) what share of the market they are getting and what proportion goes to their main competitors;
- (c) whether their share is growing or shrinking;
- (d) what market coverage they have—in other words, how many places there are where their goods might be offered for sale and are not?"

asked Mr. Harold Norcross, F.C.W.A., at the Irish Regional Cost Conference in Dublin this month.

He argued that to increase sales volume and share of the market can often be more important to a company than to control marketing costs. This is particularly true in a company where fixed overhead costs are high and there is a correspondingly high profit/volume ratio. A company might increase its sales by only 10 per cent as a result of increasing its marketing costs by 20 per cent, yet would not be wrong provided a higher aggregate profit was secured through a better spread of overhead charges. This did not mean that control of marketing costs was unimportant, but that budgets must be set in accordance with a marketing policy.

In the selection of the best marketing policy "hunch" or "flair" must play a big part, but improved methods of measurement, particularly in the economics of advertising, would improve the quality of management decision-taking. When a company's marketing policy has been settled, then, and only then, is it possible to make wise decisions on

capital expenditure. Unless marketing policy is clear, how do we know what rate of expansion to plan for? And unless we know this, how do we know what buildings, plant and other facilities to provide?

Mr. Norcross also drew attention to an interesting possible application of the concept of "real time", employed in connection with guided missiles, to the field of business information and marketing. He explained the concept as follows: "If several plottings are made of the path of a rocket it is possible to make a mathematical prediction of where the rocket will go. If, however, to predict where it will be at the end of ten seconds involves mathematics which take twenty seconds to perform, we have not solved the problem in 'real time.' We must solve the problem so quickly that we have time to do something about it." The number of combinations of features in a motor car is enormous, but even the large manufacturers of cars in the United States are producing to customers' specific orders and not to a sales forecast. The rapid provision of information, as a result of the use of computers, enables management to take action to revise their vehicle building programme, to adjust stocks and orders, and to avoid over-investment. Capital savings are large, giving a vast improvement in profit.

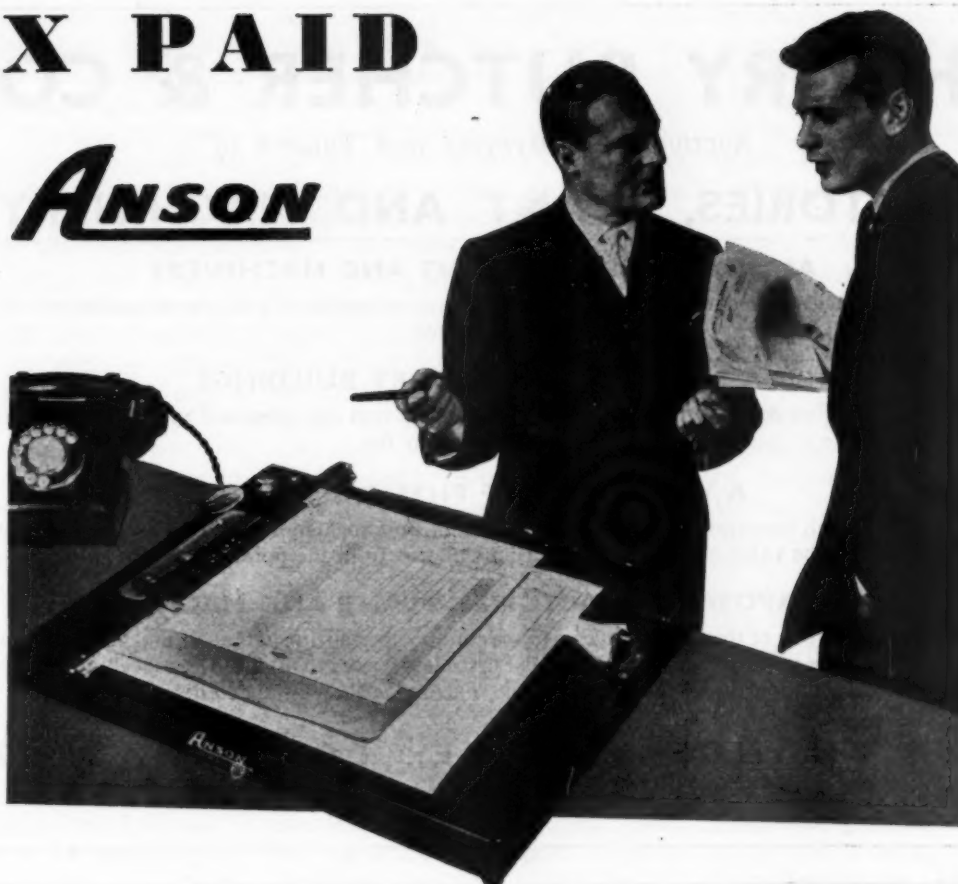
This vast field is wide open to the ambitious accountant. If he does not step in now with his own organising ability, industry will fill the gap as best it can. Economic planning ought to be a responsibility of the financial controller, and can be if he grasps the opportunity today.

Accountants' Certificates for Solicitors

THE SOLICITOR'S ACCOUNTS Rules require that every practising solicitor shall deliver an accountant's certificate to The Law Society within six months after the end of the accounting period to which it relates. A statement in The Law Society's *Gazette* last month reminded solicitors that when an accountant's certificate is not delivered to The Law Society at the proper time only one reminder is sent by the Council to the

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solicitor. That reminder states that unless within seven days the accountant's certificate is received or a satisfactory written explanation is given for its non-delivery, disciplinary proceedings will be instituted against the solicitor without further notice.

The statement adds that the task of The Law Society would be made much easier if solicitors would deliver their certificates towards the start of the six months' period, instead of—as is more usual—only a few days before its end.

Practising accountants will no doubt bear this statement in mind and do their best to ensure that their solicitor clients receive the certificates as early in the six months' period as possible. Responsibility for complying with the Rules rests solely on the solicitor, but it has sometimes been alleged that late delivery of certificates was caused by delays on the part of accountants.

Shipbuilding Orders Placed Abroad

DURING A DEBATE on shipping and shipbuilding in the House of Commons on July 13, 1961, the Minister of Transport announced that he had appointed Messrs. Peat, Marwick, Mitchell & Co., Chartered Accountants, to analyse and summarise the reasons why British shipowners had been placing orders abroad for ships. The report, presented less than three months later, is brief and to the point, though it represents a summary of information obtained from forty-three companies registered in the United Kingdom, Bermuda or the Bahamas in relation to ships of 1,000 or more gross tons ordered since January 1, 1959, for registration in the United Kingdom.

Thirty-four ships, of a gross tonnage of just under 200,000 and costing £23 million, ordered abroad in the period under review formed the main subject of the report. For seven of these vessels no tenders were invited, the order being given straightaway to an overseas yard. For three others U.K. tenders were requested, but the order went to a foreign yard whose terms were already known. Only foreign tenders

were called for in the case of a further seven ships. Among the reasons offered for this were: (i) U.K. yards would quote on a cost plus basis instead of a fixed price; (ii) yards abroad were known to be offering particularly low prices during a period of shipbuilding recession; (iii) U.K. prices would be considerably higher; (iv) U.K. builders were unwilling to install the foreign-built engine specified by the owners. In the case of fifteen of the remaining seventeen ships, the lowest U.K. tender was higher (by between 4 per cent and 30 per cent) than the foreign tender accepted. For over half, the range was 12-17 per cent. There was no case where a U.K. yard quoted a lower price than the accepted foreign price.

To those used to escalator clauses it is perhaps a little surprising to find that with one possible exception all the accepted foreign tenders were at fixed prices. Price change provisions are generally disliked, but accepted as a normal part of British business life. Is this switch to overseas yards the beginning of a revolt? Whereas there was generally little or no difference between the delivery dates quoted by U.K. and foreign yards, most of the foreign yards accepted penalties for late delivery. British yards are stated not to have been willing, until recently, to accept penalty clauses. As Britain approaches the Common Market our attitude towards such matters must surely change violently. Policies which were acceptable in a seller's market are likely to bring ruin when the buyer is king.

Lest the section of the report dealing with prices be dismissed by an appeal to the superior quality of British workmanship, we are told that, in the fifteen cases where foreign built ships had already been delivered, workmanship, performance and finish had been described as either excellent or very satisfactory. In one case where an order was placed abroad with some hesitation, a similar order was placed with a U.K. yard. When both ships were complete, the foreign one had the better finish.

As so often with a government

report, one wishes that the terms of reference had been wider. A single comparison of British and foreign workmanship, while interesting, cannot be regarded as significant statistically. Perspective would have been improved had a broader picture been painted. Everyone knows that British yards are facing difficult times. Just how difficult was not within Peat, Marwick, Mitchell's terms of reference, but it would have been nice to know.

Offices Act, 1960

IN ANSWER TO a question in the House, the Minister of Labour, Mr. John Hare, has announced that, because the programme of essential legislation for the current session is so full, it has been reluctantly decided that there will not be time during the session for proper consideration of the Government's proposed Offices Bill. This will be deferred until the 1962/63 session.

Since the Government Bill will be introduced in the autumn of 1962, no action will be taken in the meantime to implement the Offices Act, 1960, which was originally planned to come into force on January 1, 1962. It seems that in this machine age little importance attaches to the needs of the human beings who plan, control and account for our business life.

Reshaping the British Transport Commission

UNDER PART I of the newly presented Transport Bill, the British Transport Commission is to be replaced by four statutory boards and a statutory holding company among which the functions and property of the Commission are to be divided. Boards will be established for British Railways, London Transport, British Transport Docks and Inland Waterways. There are to be Regional Railway Boards, to which the British Railways Board will have powers to delegate certain functions.

The Boards are each required to so "conduct their business as to pay their way, taking one year with another, and to set up general reserves." They must prepare accounts in a

form directed by the Minister, and the accounts must be audited by auditors appointed by him and laid before Parliament. They may borrow temporarily from the Minister, or elsewhere with his consent. For capital purposes they may borrow only from the Minister. The Treasury is to assume liability for British Transport stock, and the Commission's liabilities in respect of advances made by the Minister are to be extinguished. These liabilities are to be replaced, after deducting losses written off, by "commencing capital debts" due from the new bodies to the Minister. The Railway Board's capital debt will be divided into two parts: an interest-bearing debt, representing the written-down value of the assets created since the end of 1955; and the remainder, which is to be put into suspense. The effect of this will be to very considerably reduce the charge against profits in respect of interest, all "dead wood" having been cut away. It would be a poor transport organisation indeed which could not produce a paper profit on such a basis.

The making of losses is, however, only one of the troubles which face the railways. The creation of new Boards and the juggling of interest

charges will not, by themselves, produce the morale and spirit of service essential if the British railway system is to survive. If our hopes are to be fulfilled, a much more far-reaching reorganisation is essential—one felt not simply at the top but right down to the last stationman and porter.

Stock Exchange Prices in 1715

FOR MANY YEARS NOW the Institute Library has possessed a continuous record of stock exchange prices from Wetenhall's *Course of the Exchange* of January 3, 1837, to date. A recent purchase:

Freke (John): The Prices of the several stocks, annuities, and other publick securities, &c. with the course of exchange from . . . March 26th 1715 to . . . June 22nd 1716.

(Sotheby, £25)

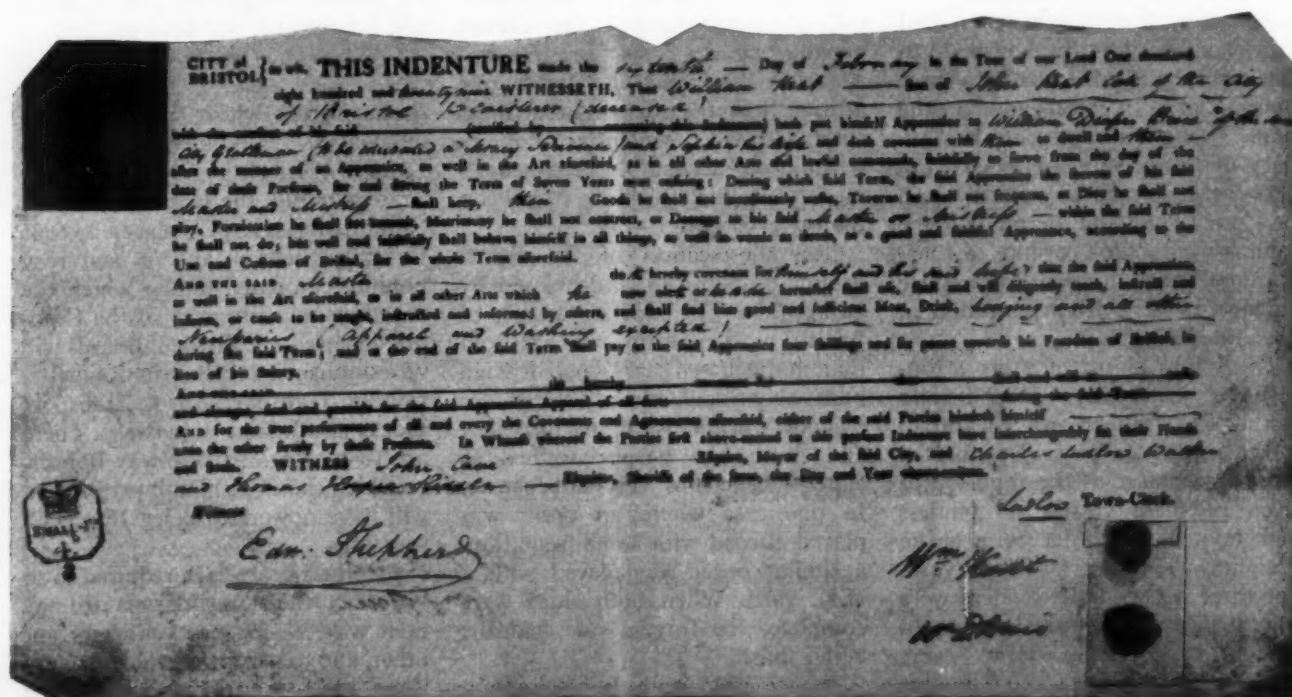
carries the record back a hundred years earlier. When Freke issued his book Belgium was under the Hapsburgs, the Netherlands was a loose federation of states, Venice was still a republic and Naples a kingdom. And the old calendar, in which the year began on March 26, was still in force.

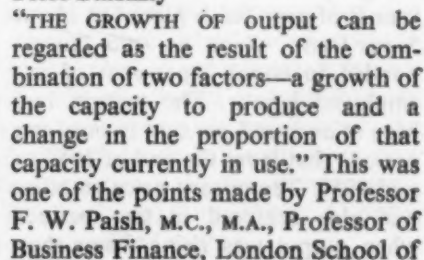
The prices common to this list and

Wetenhall's indicate the existence of inflation between 1715 and 1837. Bank Stock with a dividend of 8 per cent was 135 on March 26, 1715, and stood at 210 on January 3, 1837, but most of the foreign rates of exchange moved against the pound, which lost about a third of its value. South Sea 6 per cent Bonds are quoted, the prices shown by Freke fluctuating, sometimes rapidly, between £3 10s. discount and £1 11s. premium. The complete collapse was still four years away.

Recent Presentations to the Institute Library

RECENT PRESENTATIONS TO the library of The Institute of Chartered Accountants in England and Wales include two interesting sets of articles. The first is the original indenture of apprenticeship, dated 1829, of the late Mr. William Kent of Bristol, the great-grandfather of Mr. J. D. Green, F.C.A., to Mr. William Diaper Brice "to be educated a money scrivener." The covenants of this indenture, which is reproduced below, make interesting, and occasionally comic, reading. Those who claim that five years of articles are insufficient





Economics, at the Twelfth Summer School of the Institute of Cost and Works Accountants at St. Catherine's College, Cambridge.

Professor Paish went on to show that the rate of growth of money incomes is largely determined by the extent to which capacity is employed, it being a condition for long-term stability of prices that the growth of money incomes be equal to the rate of growth of capacity, so that there is at all times some margin of unused capacity. In the short run, however, output can increase faster than capacity by reducing the margin of unused capacity. For a time, therefore, the rise in incomes can be equalled by a rise in output, and prices remain stable, even with a margin of unused capacity less than necessary for long-term stability. As, however, the unused margin decreases, the rise in incomes accelerates; while, as output approaches capacity, its rate of rise slows down. Incomes thus begin to rise faster than output, and prices begin to rise.

If, at this stage, the government intervenes to check demand, it usually also checks the rise in output. Prices therefore continue to rise. But the margin of unused capacity increases, and incomes cease to rise as fast, so that when incomes are rising no faster than capacity the restraints on demand can be relaxed and the rise in output permitted to resume. Prices then cease to go up.

Professor Paish went on to show how this form of analysis could be used to explain fluctuations in output, incomes and prices in the United Kingdom since the war. Productive capacity was estimated to have risen by about $2\frac{1}{2}$ per cent a year from 1948 to 1953, and by about 3 per cent a year since 1953. The margin of unused capacity needed to prevent incomes from rising by more than 3 per cent a year Professor Paish placed at about 5 per cent, which he said corresponded to about 2 per cent of unemployed labour. The margin had been at or over 5 per cent in only one period: that from the end of 1957 to mid-1959. Temporary price stability was also achieved in two periods when output was rising faster than

capacity: in 1953/54 and 1959/60.

In 1951 and 1955 the rise in output was not checked until it reached full capacity. In 1960 it was checked while a small margin of unused capacity (about $1\frac{1}{2}$ per cent) still remained, but the margin rose only to about $2\frac{1}{2}$ per cent by the end of that year, and was thus only half that needed for long-term price stability. To restore conditions compatible with such stability, Professor Paish suggested that we need an actual fall in output of about 3 per cent, or alternatively no further rise in output for nearly a year.

In a closed system, he went on, a faster rise in incomes than in output shows itself entirely in rising prices, whereas in an open one it also shows itself in rising imports, sluggish exports and an adverse balance of payments. Whether the whole of the worsening on the U.K. balance of payments which occurred in the early summer could be attributed to an over-rapid rise in incomes, or whether British costs and prices had already risen so much that the balance of payments would still have been adverse even if incomes were rising no faster than output, he did not know. This could be determined only when we had tried eliminating the excess demand.

There remained for consideration the possibility of accelerating the growth of productive capacity. A more rapid growth of capacity would make it easier to prevent inflation, since it would make a higher rate of income growth compatible with long-term price stability. A 5 per cent margin of unused capacity would, he said, make it necessary for the least efficient firms either to improve or to go out of business. It might well therefore raise the average level of business efficiency and accelerate the rate of growth of capacity.

Among other possible measures, a higher rate of saving and investment would do something to accelerate the growth of capacity, though, by itself, probably less than was sometimes thought. Really substantial acceleration of growth, he concluded, calls for a general increase in skills, both of management and labour, as well as for better relations between them.

Shorter Notes

Institute List of Members, 1962

We are asked by the Secretary of The Institute of Chartered Accountants in England and Wales to remind members that the latest date for the receipt of changes of address and other details for inclusion in the 1962 List of Members is December 1, 1961.

F.C.A. Ltd. and A.C.A. Ltd.

The Institute of Chartered Accountants in England and Wales has recently formed two new private companies, F.C.A. Limited and A.C.A. Limited, the main objects of which are to advance and protect the status and interests of the accountancy profession and to protect the designation "Chartered Accountant" and the designatory letters "F.C.A." and "A.C.A." respectively.

Figures for Business

Professor Lloyd R. Amey, B.E.C., B.A., PH.D., Professor of Accounting at Bristol University, delivered his inaugural lecture on October 26. Speaking about "Figures for Business", he expressed the view that: "The area of accounting in which work of a fundamental nature most needs to be done . . . is that concerned with the provision of information for management decision-making. This information is not all numerical (though most of it is), and the numerical part not all accounting figures. It is therefore useful . . . to view a firm's internal information system as a whole." A number of accountants will agree with Professor Amey in this—seeing, as they do, the accountant as the information manager of the undertaking.

Australian Congress, 1962

The Institute of Chartered Accountants in Australia will hold its second Congress in Sydney from May 7 to 10 next year; the first took place in Melbourne in 1957. In addition to technical sessions the programme includes social and sightseeing events, with special arrangements for entertainment of the ladies. A detailed programme will be available early in the New Year.

More Life Assurance

In 1960, for the first time ever, more than one million new life assurance policies were taken out. By the end of that year sums assured and bonuses amounted to over £9,000 million, while the total income of the ordinary life and annuity funds of assurance companies was over £800 million.

EDITORIAL

Who Wants a Capital Gains Tax?

"WE do not recommend... that capital gains should be brought under a general charge to income tax or surtax as constituting income. Nor do we recommend the introduction of any supplementary scheme for charging them or some of them to a flat-rate tax as constituting a special class of income." So wrote the Royal Commission on the Taxation of Profits and Income, which presented its report in 1955.

Yet there is nothing impossible about the introduction or operation of a tax on capital gains. Various forms of such a tax exist in Europe; and capital gains have been taxed in the United States for almost fifty years.

Apparently this absence of insuperable obstacles has led some observers to the quite separate, and much more questionable, conclusion that a British capital gains tax is just round the corner. To quote the usually judicious *Financial Times*: "The City has been resigned (though not reconciled) to the prospect of a capital gains tax for some time past. Many people would have been neither surprised nor particularly outraged to see some new tax of this sort introduced in the last Budget as a counterblast to the long awaited cuts in surtax."

What in fact the Chancellor of the Exchequer said gave no genuine justification for such comments. "It has been suggested... that these remissions of surtax should be accompanied by a capital gains tax. I have carefully examined this possibility. From a practical viewpoint, the complication of the legislation and the administrative machine required present difficulties. Also the allowance for losses and the many exemptions which would, in my view, be required would reduce the proceeds to very much smaller proportions than publicly estimated. I am, therefore, not proposing a capital gains tax in my Budget."

That was in April. At the distinctly more disturbed time of the July Budget, Mr. Lloyd said: "I have already explained my practical objections to a conventional capital gains tax. However, that does not affect my view that certain profits at present tax free should be brought within the existing system.... I have made sufficient progress in this matter to be able to say definitely that in next year's Budget I shall be bringing forward measures designed to impose clear liability to tax over a wider field than at present." A serious warning indeed, but still not a promise of a capital gains tax. To make this point doubly clear the Chancellor went on to say: "The activities I want to see taxed are of two main kinds. The first kind are those seeking short-term profits, which are more in the nature of speculation than investment, for example, short-term transactions in shares and securities. The second kind are, in effect, trading activities—often in real estate—but cloaked in such a form as to escape liability under the present law."

To bring in legislation of this nature is hardly to tax capital gains, but rather to spread a little wider, or rather a little more evenly and predictably, the net of taxation. Complicated though it may be, the aim seems to be to bring certain speculative types of profit within the charging sections of the present income tax code. But it is interesting to consider the reasons why a capital gains tax is advocated, and what its possible effect might be.

The past twenty years have seen vast upsurges in the capital values of both investments and land and buildings. But a large part of this change has been a result of general inflation, and it is not equitable that shareholders and landowners should be taxed on what is only a paper profit. This reduces the scope of any possible tax. But not all changes in value are caused by inflation. Real values of land tend to rise with the growth of the population, and those of investments in ordinary shares increase with the ploughing back of profits. It is tempting for those without the advantage of such holdings to suggest that their growth ought to be taxed. The idea of taxing the increase in land values is indeed nothing new. The growth in value of ordinary shares is another matter. It is often forgotten by the man in the street that a company suffers both income tax and profits tax upon its profits; and this is so, regardless of whether it distributes them or ploughs them back.

Perhaps the most telling factor of all in determining whether the game is worth the candle is the fact that the game is very hard to play, and the candle is very small and potentially dangerous. The Royal Commission on the Taxation of Profits and Income estimated the yield from a capital gains tax at not more than £50 million a year in the long term, though it considered that the actual yield might well vary from £250 million to a net loss of £250 million. This compares with a yield from, say, tobacco duty of close on £800 million or income tax of about £2,200 million.

The tendency would probably be for tax to be collected towards the peak of a boom, thus skimming off inflationary gains, and to be paid out during a slump, thus helping the economy in its most difficult days. This is sensible enough at first sight, but there are two snags. First, collection and refund are unlikely to take place immediately a realisation occurs, but would await the submission of an annual return, the agreement of the computation, and so on. Any delay would put the mechanism out of phase, so that inflationary pressures were created in the midst of a boom and deflationary ones when they served to deepen a slump. Second, the skimming off of inflationary funds will reduce pressure only if those funds are retained in the government's coffers and do not flow back into the economy. Governments are rarely as strong-willed as that.

Incomplete records jobs form an essential part of the work of most practising accountants. Properly organised, they represent a most profitable section of the practice; poorly run, they constitute an unremunerative headache. In this article Mr. D. A. Smith, a provincial practitioner, tells how his firm has mechanised its incomplete records work, saving both staff time and money.

Analysis by Machine in the Practising Accountant's Office

By D. A. Smith, F.C.A.

ANALYSIS, THOUGH ONE of the fundamentals of the accountant's work, has always been tedious and takes much of the time charged to jobs passing through the office. How monotonous it must be for those clerks, in most practising accountants' offices, who spend so many hours entering the appropriate items on the sheets of analysis paper.

For several years when considering with my partners that thorn in the side of most practising accountants—the difference between the chargeable time spent on a job and the economic fee to be charged to the client—we said, "If only the analysis work could be done by machine." If this were possible we anticipated that the time spent on many jobs would be reduced considerably and, in particular, the time spent on "incomplete records."

Like most provincial offices we have a good quota of these. Indeed they form a very necessary part of the practice in providing employment for the juniors and semi-seniors between large audits, and comprise the basic training for these classes of staff. If a clerk can complete satisfactorily an incomplete records job, then he is well on the way to being a good auditor.

Our standard layout of working papers for this kind of work is as follows:

- (i) Summary of Bankings;
- (ii) Analysis and Summary of Cheque Payments;
- (iii) Total Bank Account;
- (iv) Analysis and Summary of Cash Received;
- (v) Analysis and Summary of Cash Payments;
- (vi) Summary of Cash Differences; and
- (vii) Total Cash Account.

The Analysis and Summary of Cheque Payments used to be completed on analysis paper suitably headed and showing the dates of payments and names of payees, the amounts of the payments being entered in the total column and again in the appropriate analysis column. Special information applicable to individual items was entered near these items in the analysis columns. If a printed form of Traders' Cash Book was presented to us,

the analysis was modified accordingly. Cash payments were analysed similarly without the entry of the name of the payee. In both cases each line crosscast and so did each page and the final totals—to prove the arithmetical accuracy of the analysis.

In an effort to expedite matters, and with some heart-burning in so far as the training of juniors was concerned, we introduced adding machines some years ago. In general we found these unsatisfactory, as there was no means of checking the accuracy of the material fed into them, and they were discarded for adding and listing machines. These can be used for analysis where the items are not numerous, but the scope is limited.

If the work outlined above was to be done by machine it seemed to us that the following were pre-requisites:

- (i) Identification of information fed into the machine with the information presented by the machine.
- (ii) The total of entries fed into the machine must be shown so as to be agreed with the total of the book of prime entry or the pre-list of the information being analysed.
- (iii) Facilities must be available to check the total of entries fed into the machine at intervals during the operation to prove their accuracy.
- (iv) Facilities must be available to write special information regarding specific items fed into the machine, that is, Repairs, Capital Expenditure, etc.

In fact the machine must provide us with practically all the information previously available to us in our manually prepared analyses and summaries. Anything short of this would be a retrograde step.

Some eighteen months ago we read an article in one of the professional magazines describing just such a machine. Thereupon we wrote to obtain particulars, and eventually were fortunate in having a demonstration of this machine in our own offices.

It was evident from the outset that a practising accountant well versed in "incomplete records" analysis work had been responsible for the design of the machine in so far as its product was concerned.

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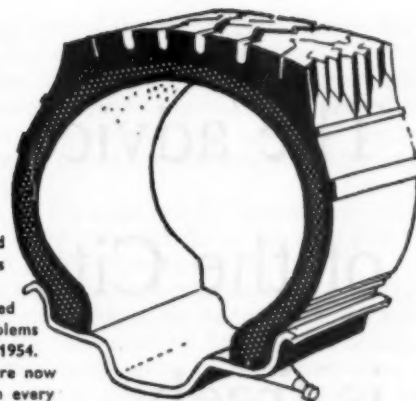
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SWEET & MAXWELL

We found that the machine provided the facilities and information required in (i) to (iv) above. Indeed it gave us all we needed except the date of each item entered and the name of each payee. Equally important, the machine was relatively inexpensive. In short, we were impressed with it and its product from the first.

However, in order to ensure that we obtained the most suitable machine we had demonstrations of other machines. These, it was found, did not provide all the facilities required as cheaply or as conveniently as the machine chosen.

The Machine Described

The machine we now have is relatively small in size as analysis machines go. It is the size of a small electrically operated cash register, and indeed looks like one with its banks of cash keys and the familiar window at the top of the back in which the amount of each entry fed into the machine and the number of the analysis key employed are "rung up" when the motor bar is depressed. As the amount is visible from both back and front of the machine, it acts as a check to the operator and as an additional check when the work is done double-handed.

In addition to the visible record of amount entered into the machine there is also an audit roll upon which is printed the number of the analysis key selected and the amount entered.

As well as the cash keys and motor bar the machine has, on the left-hand side of the keyboard, a vertical line of keys numbered 1-8 from top to bottom. These are the analysis keys, and the machine can be likened to an adding and listing machine with eight other adding machines. These keys are brought in as required by the depression of the numbered keys before depressing the cash keys.

To the left again of the numbered analysis keys is a holder into which can be slid a strip of white card upon which are written the analysis headings allocated to each of the analysis keys 1-7. The use of No. 8 key will be described later.

At the front of the machine is attached a tray which extends the width of the machine. This is divided into twelve compartments with channels for sliding in strips of card upon which are written the analysis headings allotted to each tray. Thus it will be seen we have seven analysis keys and twelve tray compartments, giving nineteen analysis headings in all.

Features of the machine include:

(i) An *Add/List* key which pre-lists, as an arithmetical check, material subsequently to be analysed. It also prints the total amount of the entries fed into the machine since the work was started or since the key was last depressed. The use of this key will be described later.

(ii) A *Sub-Total* key.

(iii) The *X* key which prints the number of any analysis key depressed after it, together with the accumulated total of amounts allocated to that analysis key. This is an extremely useful feature.

(iv) The *Z* key which is operated in the same manner as the *X* key, but which prints the number of the analysis key

selected and the total of the amounts allocated to that key. It also clears that analysis key of entries.

(v) A *Correction* lever with a small red handle cancels any entry and restores all keys to normal if it is pulled before the motor bar is depressed. Thus any error discovered before pressing the motor bar can be corrected before entry into the machine.

(vi) If writing on the audit roll is required, the audit roll can be drawn from the machine by hand to give larger spaces between groups of entries as required.

(vii) When analysis key No. 8 is used, the amount fed into the machine is printed upon the audit roll, and a ticket is issued bearing the same amount. The ticket is of sufficient size for additional information to be entered upon it by hand. It will readily be appreciated that this facility will be used for all analysis headings requiring extra particulars such as Rent, Rates, Insurance, Lighting and Heating, Repairs and Renewals, Capital Expenditure, etc. Thus the remaining seven keys will be used for those analysis heads which require no additional annotation.

(viii) For audit security a Yale type of locking mechanism is fitted, so that the figures inserted into the machine cannot be altered during the absence of the operator. The capacity of each analysis key is £9999 19s. 11d.

A tubular stand on wheels is supplied so that the machine rests with the inclined keyboard at a comfortable angle to the operator, leaving the desk free for the work on hand. This also increases the portability of the machine; it can easily be taken to out-of-office jobs.

So the machine satisfied all our requirements other than entering the date of the transaction and the name of the payee. We have found that the difficulty caused by the omission of the date particulars is largely overcome by entering on the audit roll by hand the month of the year immediately before the first transaction for that month is entered. This enables the entries printed on the audit roll to be related to the cash book, bank statements, etc., being analysed. Moreover it mitigates the loss of the name of the payee by assisting in the relation of the audit roll to the materials being analysed.



Operator analysing from Simplex type analysis book.

How the Machine Works

Assume that we have to analyse the cheque payments of a trader who has a bank account but does not keep a cash book. The payments are first vouched in the normal way; any supplementary information is written in against them on the bank statements.

The bank statements are presented to the machine operator for analysis and the operation is carried out as follows:

- (i) The audit roll is drawn up a little and on it is entered the name of the client and "Analysis of Cheque Payments, year ended....."
- (ii) Z key and No. 1 analysis key are depressed and the motor bar is pressed. This empties the No. 1 totaliser. The other seven analysis keys are depressed in turn, together with the motor bar, to ensure that any amounts already in the machine are cancelled out.
- (iii) The analysis headings allotted to each analysis key and to the trays at the foot of the machine are written upon the cards which have been slid into channels provided.
- (iv) The operator then takes the first item of the bank statement debits and depresses the analysis key opposite the appropriate analysis heading, for example, Purchases key No. 2. The appropriate cash keys are then depressed, say, £41 12s. 6d. The keys remain depressed while they are all checked. The motor bar is then pressed and in the window at the front of the machine shows 2. 41.12.6. At the same time these items are printed on the audit roll and all the keys are restored to normal.
- (v) The operator takes each item on the statement as it comes and operates the machine as above.
- (vi) When the operator uses key No. 8 the supplementary information written by hand upon the bank statement is written by hand upon the ticket issued and this is then placed in the appropriate tray.
- (vii) At the end of the bank statement page, which has previously been totalled, the Add/List key in the machine is depressed together with the motor bar. The machine then prints the total amount entered into the machine so far; this amount should agree with the total of the page of the bank statement debits.

If the pages have been added page by page without carrying forward the totals, this key will be used for each page, as it prints the total of amounts fed into the machine either from the start of the analysis or since the key was last depressed. It will be seen that the work can be proved with the bank statement page by page.

Should the pages have been added cumulatively, then the Sub Total key will print the total fed into the machine since the analysis was commenced. Thus the work can again be proved page by page.

(viii) When the last entry has been fed into the machine and the total for that page agreed with the information put into the machine, the motor bar is pressed and the machine prints the total of the amounts entered into it.

(ix) The total amount allocated to each analysis key is summarised on the audit roll by depressing the Z key, followed by each analysis key and motor bar in turn. The machine prints the number of the key and the total amount allocated to that key. After No. 8 key has been so dealt with, a depression of the motor bar will print on the audit roll the total of the amounts printed for each analysis key. This will agree with the total of the amounts fed into the machine obtained in (viii), thus proving the arithmetical accuracy of the analysis.



Sundries Ticket with details written on it being placed in appropriate Sundries Box.

(x) The contents of each compartment at the front of the machine are then fed into the machine; a separate analysis key is allotted to each compartment and each heading is entered on the audit roll before any entries are fed into the machine. The total of each analysis key is printed as above, and the tickets applicable to each compartment are stapled together. The total of the analysis of the compartments will equal the total printed under (ix) above for analysis by No. 8. This proves that no tickets have been omitted from the summary.

(xi) The audit roll is then withdrawn from the machine and can be prepared for insertion in the working papers according to the layout adopted by the office concerned. Presentation of the information is dealt with later in this article.

Operating the Machine

Our experience in the operating of the machine has been as follows:

1. The operators must have a basic knowledge of the preparation of information for accounts from incomplete records and of elementary auditing procedures.
2. The machine will be most fully or efficiently employed and give the best results if it is used by a limited number of the staff rather than generally.
3. Audit staff, group leaders and senior clerks must liaise frequently, so that the order of precedence of waiting work can be determined in advance.
4. One group leader or senior should be in charge of the machine and its operator. All work to be machined must go through him, and he alone issue instructions to the operator.
5. It is preferable that the accuracy with which entries are fed into the machine should be proved at frequent intervals, that is, at the end of each page of the Cash Book, Wages Book, Bank Statements. However, if proof of arithmetical accuracy is left to the end of the book, little time is spent in finding a difference, since all items on the audit roll are in the same order as the original data, and calling back is a simple and rapid operation.
6. Notwithstanding this method of procedure all the principals, senior and semi-senior staff have been intro-

duced to the use and operation of the machine, and two reserve operators have been trained.

In addition it has been found that it is desirable to make the operator responsible to some extent for the accuracy of the machine work. That is to say, total or control accounts are completed by the operator.

7. In order to predetermine responsibility for the various stages of work we have drawn up the Programme shown on page 668.

The Machine in Use

Here is a description of a typical incomplete records job passing through the machine:

(i) Records received and checked by group leader for completeness, that is, bank statements, particulars of debtors and creditors, stock, etc.

(ii) Job allotted to semi-senior and juniors. Work programme opened by group leader.

(iii) If Cash Book is maintained, then this is checked into Bank Pass Book as necessary and as instructed in work programme.

(iv) Expenditure is vouched as instructed in work programme. Where additional information is required this is entered alongside the Cash Book entry.

(v) The vouched Cash Book is presented to group leader in charge of the analysis machine with request for any special analysis required.

(vi) Machine operator is instructed and issued with a coding slip made out by the clerk in charge of the job. This slip is printed in blank and the analysis headings are written in as required. Subsequently the coding slip is pasted in the audit file for subsequent years. The coding slip is illustrated on this page.

(vii) From the coding slip the operator summarises the Bank Pay-Ins and commences the Analysis of Cheques Drawn by completing the analysis headings allotted to each analysis key and tray compartment.

(viii) The machine operator carries out work proving accuracy page by page, copying on to the tickets, when issued, the supplementary information marked against the items in the Cash Book.

(ix) The machine operator, having summarised the totalisers employed, then summarises each tray compartment, and proves the total of the trays with the total of analysis key No. 8.

(x) The resulting information is then filed in the audit file as described in the next paragraph. The Total Bank Account and Total Cash Account are completed to prove the accuracy of the figures.

Presentation

The presentation of the information in the working papers is as important as the analysis itself. After experimenting with various methods we think that the one outlined below is the best so far, but it will be understood that this and the general programming of the machine work are being improved upon as time goes by.

Our present standard method of presentation is as follows:

(1) The audit roll is taken from the machine and is cut off immediately after the grand total of the information fed into the machine. This is then folded like a concertina and is placed in an envelope of suitable size, appropriately endorsed. As we use treasury tags pushed through the top left-hand corner of the file and working papers, the envelope

| CLIENT..... | | |
|---------------------------------|-----------------|---------------|
| ACCOUNTS YEAR ENDED196 | | |
| CODING SLIP | | |
| ALLOCATION OF MACHINE REGISTERS | | |
| No. | Cheque Payments | Cash Payments |
| 1 | | |
| 2 | | |
| 3 | | |
| 4 | | |
| 5 | | |
| 6 | | |
| 7 | | |
| 8 | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| REMARKS: | | |

is also pierced and put on the tag with the endorsement visible on the front.

(2) When summarising the analysis the audit roll is pulled up about one inch to one-and-a-half inches after each item printed on the audit roll. After the items for analysis keys 1-8 have been totalled and the sum printed, the audit roll is again cut and this strip is pasted on to the left-hand side of a brief-sized sheet of plain paper or backing sheet which has been suitably headed beforehand. To the right of each of the items printed on this piece of audit roll are written by hand the analysis headings allotted to each analysis key.

(3) When the trays containing the tickets are summarised the audit roll is pulled up about two inches after each group of entries. The audit roll is then detached from the machine and cut into strips the approximate length of the

WORK PROGRAMME

| | Carried out by | Time | Remarks |
|---|-------------------|------|---------|
| <p>1. Check the Bank Pay-Ins with the Bank Pass Book and enter in the Cash Book any unrecorded items.</p> <p>2. Check from the Cash Book to the Bank Pass Book the cheques drawn and enter any unrecorded payments.</p> <p>3. Vouch all the Expenses entered in the Cash Book.</p> <p>4. Test vouch the purchases whenever possible.</p> <p>5. Draft Total Bank Account, inserting opening and closing balances.</p> <p>6. Draft Total Cash Account, inserting opening and closing balances.</p> <p>6a. Draft where applicable and insert opening and closing balances: Wages Total Account P.A.Y.E. Total Account National Health Insurance Total Account</p> <p>7. Group leader will decide machine method to be applied and approve analyses required.</p> <p>8. <i>Machining</i>: Each time the Cash Book date alters, the week-commencing date will be written on the audit roll. At the end of each page the machine operator will press the Add/List key and motor bar to print the total amount inserted into the machine from the commencement of the page. If this total does not agree with the total of the page then the Cash Book total will be checked. If there is still a difference, the amounts put into the machine will be checked with the Cash Book entries. Any Cash Book addition errors found will be noted in the Cash Book.</p> <p>(a) Summarise Bank Pay-Ins, noting special items.</p> <p>(b) Analyse Cheques Drawn. All suspense items must show the date of payment and name of payee.</p> <p>(c) For Takings and Bankings each change of month will be marked on the audit roll.</p> <p>(d) Where Purchases in the Cash Book contain items such as Wrappings, etc., summarise the Purchases and then take out the Wrappings items and arrive at the actual Purchases by deduction.</p> <p>(e) Where Purchases shown separately in the Cash Book contain a small number of items only, these can be machined in detail to check the cast; where the items are numerous and the casts are known to be accurate summarise the totals only.</p> <p>(f) Complete Total Bank Account.</p> <p>(g) Summarise Cash Received, noting special items.</p> <p>(h) Analyse Cash Payments.</p> <p>(i) Complete Total Cash Account.</p> <p>(j) Analyse and summarise Wages Book where applicable and then complete Wages Total Account, P.A.Y.E. Total Account and National Health Insurance Total Account.</p> <p>9. Prove Cash Difference.</p> <p>WHERE APPLICABLE CHECK CROSS CAST IN WAGES BOOK AND NOTE OVERS AND UNDERS OF NET PAYMENTS COLUMN</p> <p>10. Make Schedules of: (a) Drawings (b) Repairs and Renewals (c) Motor Expenses (d) Sundries</p> | | | |
| <p><i>Note: ALL EIGHTH KEY SLIPS WILL SHOW THE DATE OF THE PAYMENT IN ADDITION TO THE NAME OF THE PAYEE.</i></p> | | | |

How the analysis is laid out, showing main listing, main analysis, a sundries analysis with sundries tickets alongside relevant analysis, listings of bankings and Bank Reconciliation.

working paper backing sheet. These are then stuck on to the backing sheet with spaces of about one-and-a-half inches between them, each batch having already been headed-up. To the right of each strip, in the space allowed between the strips and next to the appropriate summary, are stapled the supporting tickets showing the supplementary information.

(4) The last item to be stuck on to the backing sheet is that part of the audit roll upon which appears the summary of the tray totals, showing that this total agrees with the total for key No. 8 in the main list.

(5) We prefer to have the maximum information available upon a single page, and therefore also have the Summary of Takings and Summary of Bankings on the same page as the Analysis of Cash Payments, with the Cash Total Account as well. If necessary the width of the backing sheet is extended. The small amount of time spent in gumming and fixing the strips of audit roll, writing in the headings and ruling up the work is trivial when compared with the time saved by machining the analysis.

Errors and Mistakes

When an error of omission is discovered and an amount has been entered short into the machine the X key is depressed, followed by each analysis key in turn, so that the accumulated totals of the analysis keys are printed. A note is then made on the audit roll of the amount short-entered. This amount is then entered into the

machine in the ordinary way and the operator continues the work.

If the error is one of commission and an item has been overstated on entry into the machine, then the Z key is depressed, followed by each analysis key so that the machine is cleared. A note of the error is made on the audit roll and the amount of the error is deducted from the total of the appropriate analysis key. Then the amended total of each analysis key is entered into the machine and work continues normally.

Other Aspects

It will be appreciated that a multitude of other work directly or indirectly involving analysis can be put on the machine. Examples which come to mind include:

- (1) Analysis of purchases according to commodities on incomplete record jobs to prove the percentage yield.
- (2) Wages records are readily analysed and summarised to produce Total Accounts for Wages, National Health Insurance, P.A.Y.E. Income Tax and Graduated Pension Scheme Contributions.
- (3) Sub-analysis of books of prime entry is expedited by the use of the machine.
- (4) Sales and Purchase Ledgers are easily analysed to produce Total Accounts.
- (5) Nominal and Private Ledgers can be analysed to locate Trial Balance differences.

(6) Sales and Purchase Ledger Balances can be analysed as required, for example, Credit Trader's Sales Ledger Balances are easily analysed to provide the required information for calculating Bad Debts provision.

In our office (6) has resulted in a reduction in the time charged to the job from 1,079 hours to 409 hours. Indeed, we have been able to analyse and summarise Sales Ledgers to provide a Sales Ledger Total Account where the balances number approximately 12,000. Previously the analysis and summary of these ledgers by hand was out of the question.

Results

A perfectly natural question is, "What happens to the time saved when all the work is brought up to date?" Our experience is that normal staff wastage need not be replaced. In fact, since the introduction of the analysis machine it has not been necessary to replace three semi-senior female audit clerks.

It has been found that, although staff are not necessarily prejudiced against the machine, nevertheless manual analysis has become a habit. After the installation of the machines the author intimated that in general terms he did not wish to see analysis paper being used in the office. Nevertheless for several months staff were found analysing manually, and this had to be stopped by extra vigilance on the part of the group leaders.

During the explanation and demonstration of the machine to the group leaders and senior clerks some keen criticism and opposition was encountered, but the demonstration and explanations put forward were such that in the event those opposing the installation of the machine became its most enthusiastic users.

For some time we held a weekly conference of group leaders to discuss problems arising from the installation of the machine, and from these conferences were produced the coding slip and work programme, amended to meet analysis by machine.

The benefits resulting from the installation of the machine are summarised as follows:

- (1) The time charged to jobs has been remarkably reduced: many jobs formerly non-profitable are now profitable, and those formerly profitable are even more so.
- (2) Junior and semi-senior staff can be reduced and audit groups become more balanced.
- (3) Arising from (2) above it becomes less difficult to find work for junior staff at certain times in the year, with a corresponding reduction in non-chargeable time.
- (4) With the reduction in time spent on jobs the flow of work through the office is speeded up, so that clients are being pressed for their records very shortly after the end of their financial year. A most important aspect is that clients receive their accounts as current history instead of past history.
- (5) No less important is the reduction in the amount of laborious and dreary work to be carried out by the semi-senior and junior staff.
- (6) Work can now be carried out which previously could not be entertained.
- (7) In short, we think that analysis by machine is in large measure the answer of the accountant to his own problems of rising costs and client-resistance to rising fees.

The Decline and Fall of the Accounting Profession

Transcript of the Stafford Beer Lecture presented by Professor C. V. Crossman to the Institute of Financial Econometrics on 3.11.2011.

Prepared by Thomas W. McRae, C.A.

GOOD EVENING, LADIES and gentlemen, and may I begin by thanking you for providing the facilities necessary to carry out this stimulating and significant chapter in social research.

The division between providing and interpreting business information has been carried so far that it is difficult to visualise the unique position held by the accounting profession in the middle of the last century. Perhaps no other professional group has had quite the same potentiality for influencing the economy. This curious situation had arisen for two reasons. Firstly, the general accounting statements of that day, although primitive, were the first descriptive models to evolve in business. To quote a contemporary account:

The best known and most useful of descriptive (mathematical) models in business is the accounting system. (Kozmetsky and Kircher, *Electronic Computers and Management Control*, page 133.)

No decision could be taken without consulting the financial or cost accountant as to the probable outcome.

Secondly, the growth of "information processing" after the second German War naturally fell into the accounting function, since the data was normally expressed financially. An American survey in 1960 found that of fifty-five computer installations examined, all but one came under the financial comptroller!

Thirdly, the mathematical economists, whom one would now expect to control most of the above functions, were loth to become entangled in "commerce." They felt the subject rather dull and lacking in "status value." It was not until the sixties and seventies produced the "new terminology" that a sufficient number of the best graduates came forward to lay the mathematical foundations of your profession. The surplus of scientists in the early 'seventies also helped.

Having built such an important role for itself, you may wonder how, in such a short space of time, the accounting profession could have foundered? Before answering this question I must outline the basic functions of the industrial accountant of those days. They were as follows:

1. To control the large staff in his department.
2. To collect and analyse financial and cost data.
3. To interpret this and other information for the benefit of his fellow managers.
4. To advise on, and supervise, certain financial transactions, such as taxation, share transfers, and raising capital.

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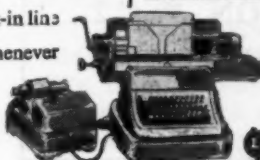
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The first development to undermine the pyramid began in the late 1950's with the advent of the electronic computer. The effect of this was to remove the second function above from the accountant's understanding, if not from his control. The setting up of the data processing department as an independent business function further reduced both his responsibility and the size of his department. This tendency was noted as early as 1959. For example, the authors believed in:

the creation of a centralised data processing unit or units, standing in a service department relationship with the accounting and other functional departments. The production of figures, just as the production of goods or materials, should be a separate line management function.—D. S. Greensmith. *Data Processing*, July-September, 1959, page 134.

This development did not unduly perturb the profession, because it was felt that the accountant would be released from the dull chores of record keeping to the more stimulating work of interpretation and advice.

The second and more lethal attack came from the Operational Research group. This subject, evolved by certain Boffins during the second German War to optimise the use of our limited strategic resources, is, of course, the primitive forebear of your own profession.

When you hear the famous names of Stafford Beer and Kaplan it is difficult to realise that they started, rather apologetically, in remote backrooms of United Steel and Shell, providing tentative suggestions to Boards of management dominated by sceptical accountants.

Now it was only a question of time before the non-accounting managers began to realise that when they asked the chief accountant a question he tended more and more to consult the O.R. group. The increasing accuracy of prediction from this source soon made consultancy imperative, and it was no real surprise to the initiated (although it shook the City) when Shell sacked its Financial Controller in 1972 and replaced him with the leader of its O.R. team.

A rapid succession of similar moves followed from Unilever, I.C.I., Courtaulds and B.M.C. (all American-owned firms at that date—this may be significant).

There was, of course, still a need for accountants to perform the duties listed under "financial techniques", but these demoted the accountant to an advisory role, similar to that of the legal profession.

Worse was to follow. The psychological blow caused by the chronic professional unemployment of the mid-seventies discouraged new entrants to the profession. Linear programming had greatly reduced the need for tax consultants, and auditing had, of course, been virtually abolished by the Companies Act of 1984, whereby the present "two level" audit system was introduced. This, as we all know, differentiated the top 1,000 large companies from the rest. The "electronic records" of the "top 1,000" are passed through the Inland Revenue "Bloodhound" computer at Blackpool, while the other companies need only comply with the less rigorous requirements of the "small" Companies Act.

But, ladies and gentlemen, no social historian is satisfied

simply with a recital of events. We must ask "Why?" Why should an intelligent and powerful body, such as the accounting profession undoubtedly was, disintegrate in such a short period? The answer is quite simple; in one word, "conservatism", and especially conservatism in training methods.

It seems unbelievable that only fifty years ago such a medieval system of training was still being practised.

The first weakness was the pay structure; it was the habit of the various firms to subsidise their clients by underpaying their unfortunate apprentices. This naturally discouraged entrance to the profession, especially among the more able students.

The second weakness was the length and the type of training given. It was expected that the apprentice should, for two, three, and sometimes even four years, perform tasks of quite indescribable monotony. The argument used against criticism of this method was that it provided the apprentice with "background" for the future. This was true in its way. But my conclusion is that anyone of average intelligence could have acquired this background in six months. The tragedy was that most apprentices were well above average intelligence, so that the years of dull routine during the day, and hard work in the evening, tended to scar the unfortunate young men for life.

The third, and by far the most decisive, flaw in the training system was the type of knowledge the student was expected to acquire during his studies.

From the early 'sixties onwards the bulk of newly qualified men were going into industry and commerce. Now all vocations which had even the vaguest pretence to being "scientific" were putting more and more mathematics into their curriculum. As early as 1956 Kozmetsky and Kircher (see above) had stated:

Moreover, as the mathematical tools themselves are improved it is likely that such knowledge will become even more useful and perhaps competitively imperative (page 128).

Or yet again:

New statistical and mathematical techniques can make a potent contribution. . . . As a result, suppositions and assumptions will be superseded in large measure in favour of mathematical projections of past facts.—D. S. Greensmith. *Data Processing*, July-September, 1959.

However, fortunately for you, gentlemen, the professional accountant, as late as 1972, could qualify without knowing even the difference between an exponential and a linear curve (*gasp of incredulity from audience*). What is more, as late as 1980, with over 2,000 electronic computers installed to process financial and cost information, not one single question on E.D.P. appeared in the Institute examinations. (*Looks of frank disbelief from audience*.) And finally, as late as 1994, the many conferences on E.D.P. were still dealing with questions of the type of "Are computers really worth while?"

Is it therefore surprising, ladies and gentlemen, that, in a period of such rapid change as the second half of the twentieth century, such an organisation went under?

Standards and budgets have one disadvantage: they are difficult to set. Past experience is a guide, but is difficult to assess objectively. Frequently, the hunches of management prove quite wrong. Interfirm cost comparison provides the perspective so necessary in setting standards and in increasing efficiency in general.

The Furniture Industry Comparative Cost Scheme

By V. Parker, Cost Consultant, Furniture Development Council

THIS IS A scheme of interfirm comparison on extremely practical lines, both in the range of information covered and in the manner of presentation. It is run by the Furniture Development Council, which was set up in 1948 under the Industrial Organisation Act, 1947, with the general terms of reference "to increase efficiency or productivity in the industry, to improve or develop the service it renders or could render to the community or to enable it to render such service more economically." The industry comprises those firms manufacturing domestic furniture. The first confidential report of the scheme was presented in 1954. Since that time turnover in the industry has increased, whilst the number of registered firms has fallen from 2,500 to 1,800. The number of firms taking part in the scheme has been roughly constant.

Funds were available for initial publicity and development work before the scheme was offered to the industry. The scheme was opposed initially because it was thought that there would be no ground for comparison between firms, that firms would not disclose their figures and that the comparisons would not prove useful. A pilot scheme covering the costs of one department only was tried, but did not prove to be practical. Then a personal approach was made quite independently to twelve manufacturers, who agreed to take part in a scheme. Through the co-operation of these manufacturers the scheme was improved sufficiently to be offered to the industry in 1954, and the initial objections were found to be unjustified.

Organisation

The administration of the scheme is so planned that the person responsible for computing the results does not have the key to the code numbers by which the members of the scheme are known. The confidential report is circulated only to

members, and no individual results are published in the press. These results consist of ratios and percentages and other comparative indicators which help further to maintain the confidentiality of the scheme. It has been found possible to maintain this service at a very low cost.

The publication of results annually has led to difficulties in the choice of a suitable closing date. No one date will satisfy all participants since, their accounting year-ends are chosen for their own internal convenience and are spread throughout the year. In future, therefore, entries from participants will be included as soon as the figures can be prepared, and the latest figures will be printed and circulated every six months.

The definitions in the scheme have been adopted to make the comparisons as valid as possible. An example which illustrates the flexibility of approach is that the return on the risk capital at stake in the business is being introduced, at the request of interested participants, in addition to the return on capital employed (total operating assets).

One difficulty is lack of sufficiently precise information. Because of this, labour cost has been defined in terms of normal type of work of operatives, and assets have been valued at original cost.

Layout and Scope

The confidential report of the scheme shows the ratios in a form which permits a firm to make a ready analysis of its comparative situation. Each firm's figures are shown in columns headed by the firm's code number. The first result quoted is the profit/capital ratio (the return on total operating assets employed), and ensuing tables show ratios which deal with the two main components of this primary ratio, that is, the sales-to-capital relationships and the profit-to-sales relationships. Under this last heading is included a very detailed analysis of costs. Besides these ratios

there is some miscellaneous information which serves to explain and amplify them. The extent of the information is often changed to suit the needs of the industry and member firms. Throughout the report medians are used rather than averages, in order to reduce the effect of exceptional results.

Example of the Layout of Information

The results shown are fictitious and are only for the purpose of illustration.

Table 4a. Operating Cost Results: Summary

| Code | 533 | 583 | 581 | | Average |
|------------------|---------|-------|-------|-------|---------|
| Direct Cost | % 65.0 | 64.0 | 63.0 | | 65.0 |
| Overheads | % | | | | |
| Manufacturing | % 10.0 | 11.0 | 10.5 | | 10.0 |
| Distribution | % 4.0 | 5.0 | 4.5 | | 4.0 |
| Selling | % 5.0 | 4.0 | 5.0 | | 5.0 |
| Administration | % 9.0 | 9.0 | 10.0 | | 9.0 |
| Total | % 28.0 | 29.0 | 30.0 | | 28.0 |
| Total Costs | % 93.0 | 93.0 | 93.0 | | 93.0 |
| Profit or Loss | % 7.0 | 7.0 | 7.0 | | 7.0 |
| Total Production | % 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Procedure

The confidential report is sent to members with a commentary on the figures. This has been printed separately in the past, but in future will be amalgamated with the report. It explains step by step how the ratios may be studied, and indicates what extraneous facts should be borne in mind at various points in the report.

After the confidential report has been sent out, firms participating in the current scheme are invited to a meeting at which their opinions are sought on such matters as the suitability of the report, the manner of its layout and contents, and ways and means of increasing membership.

The scheme has been well supported by the more progressive firms in the industry, and has proved to be one of the finest tools available to management and accountants.

Accountant at Large**That Which Should
Accompany Old Age?**

MICHAEL YOUNG'S *The Rise of the Meritocracy*, which has now appeared as a Pelican, crowds into its pages more provocative ideas than one has any right to expect in a single volume. Sixth formers being paid (rather more than the pay their working contemporaries can demand), selective unemployment affecting only the least intelligent (and leading to a return of domestic service), equal incomes for everyone (plus whatever is needed in service or environment for the efficient performance of one's work, a development of the expense account with which we are already familiar), and of course the overriding doctrine of intelligence as the sole criterion by which a man or woman is judged fit for any position: this is a new vision of Utopia, and science fiction—though not in novel form—with a vengeance.

All the bases of the revolution the book outlines will inevitably be as hotly opposed as every new idea always has been; and there is one suggestion in particular, logical enough in its context, that will be more bitterly contested than all the others. Intelligence tests at five-yearly intervals through life will give proper opportunity for the latest of late developers to be upgraded in the hierarchy; but the corollary, that declining ability entails automatic downgrading, is another cup of tea altogether. For declining ability is associated with advancing years, and the thought that after struggling to the top of the tree one must start climbing down again is not one to gladden the heart of anyone over forty.

Mr. Young, writing with the wisdom of the year 2033, says of us: "It is once again difficult for us to realise how strongly entrenched the old were in those days, especially in Britain. . . . There was a mystique

about it: people said, 'Ah, yes, but he's got more experience,' as though that was the last word." Well, yes, we do; and we are not—at least those of us who are over forty are not—ashamed to be quoted. Just as we know we are growing old when we remark on the youth of policemen, so we should recognise as another symptom the growing realisation that young people everywhere are really remarkably immature. Some of us can deceive ourselves into believing that our own vintage was different. The more realistic amongst us admit that we were almost certainly immature too, though we can't remember it; indeed, we were probably even more callow, for modern youth has at least a sophistication that we lacked. But we remember, wistfully, how we too thought that the world ought to be more demonstrably at our feet than anyone ever allowed it to be—that we could surely, given the chance, make something better than the mess our elders had left us. Now the mess is of our own making, and we can't reasonably blame youth for pointing an accusing finger. But, even more positively, we cannot agree that youth could run our business or the world better than we do. We have at least got experience.

In our business at any rate we look at our juniors, and are, for the most part, reassured as to our own competence to carry on in whatever more or less exalted position the years have given us. We are ourselves of course in the prime of life—forty-five, fifty, sixty, the feast is a movable one. When we look at men substantially our seniors we may find one or two that would justify the rule of the meritocracy: Jones, or Brown, or Smith, may perhaps be getting a bit past it, and if we are waiting for the inheritance of any of them we may even feel strongly

about it. But for the most part we are tolerant enough; and if our business is one that goes in for retirement at sixty or sixty-five we probably have few enough examples. We must not press the point further than its author, for whom the downgrading of failing ability accompanies a progressive raising of retirement age to seventy, to eighty, and eventually to abandonment of fixed retirement altogether. In *that* context downgrading becomes much more obviously sensible.

Were we to follow this argument through—that automatic retirement produces unnecessary wastage, and that a promotion system based on it is frustrating and wrong—we should be wandering a little from our theme. Everyone who hasn't done so already should read the book, and the more conservative the reader the more salutary the shocks. Not all of us, anyhow, are within the sphere of compulsory retirement; and those of us who are not are better qualified to judge just how age can wither. What none of us can judge at all accurately is how far, at any point in time, age has withered our own infinite variety. Is the assembled gathering really unanimous in agreeing with our own view that we are in the prime of life?

Let us not be gloomy about it: perhaps our colleagues are really as impressed as we are with our remarkable resilience. True, the general acceptance of seniority as a standard runs plainly contrary to natural law, which sees the old bull demoted just as soon as he can no longer hold his place as leader. That is perhaps a factor to remember before we get too impatient with the values of the meritocracy. But it is a small enough argument for those who cling to civilised values, most of which are quite against the grain of nature.

It will do us all good to have these sobering thoughts in mind; but there's no need for the over-forties to be morbid about it, nor for the under-forties to be unduly optimistic. Mr. Young may or may not have described for us the shape of things to come, but it's not here yet, and there's no need for any lemming-act. After all, how could anyone get along without our experience?

An address presented at the Summer Course of The Institute of Chartered Accountants in England and Wales at Christ Church, Oxford. The first part appeared in the October issue of ACCOUNTANCY, pages 610-17.

Surtax and Companies—II

By J. S. Heaton, F.C.A.

Surtax clearances

Section 252 is headed "Protection for companies which transmit accounts to the Special Commissioners." This is the familiar and controversial section under which a Section 245 company asks the Special Commissioners to consider the position of the company in relation to the provisions for making directions. The following rules must be observed:

- (a) The accounts for the year or period in question must have been adopted by the members in general meeting.
- (b) A copy of the accounts must be accompanied by a copy of the report (if any) of the directors for the year or period.
- (c) Such further information may be submitted as may be thought fit.

As to (a), it will be noted that the Special Commissioners have no authority to deal with draft accounts, with a view to settling a reasonable distribution by way of dividend, but in exceptional circumstances they may be prepared to indicate a view in advance of formal adoption of final accounts.

As to (c), it is helpful, on a first application, to give background information about the precise trade carried on by the company; a brief review of its history and development; notes of any relevant information about management; particulars of special plans for development, including approximate phasing of any major capital expenditure. It is helpful, also, to submit extracts from any minutes of directors which have indicated the considerations borne in mind from time to time in relation to distribution policy. Too often, private company decisions or policy are carried as personal matters in the minds of directors, without being recorded in the minute book.

Procedure

On receipt of accounts and other documents, the Special Commissioners must proceed to consider the position of the company in relation to Section 245. If

they require further particulars they must call for them within twenty-eight days, and they must be supplied within a further twenty-eight days (or such extended period as they may subsequently allow). It is noted that the further particulars must be such as "they may reasonably require." In the absence of the further particulars within the original or extended time-limit, the Special Commissioners may proceed upon the information before them.

Consequences

The power of the Special Commissioners to take action under Section 245 shall absolutely cease and determine for the year or period at issue, unless they indicate to the company their intention to proceed. That intention must be intimated within three months of:

- (a) receipt of accounts and any other documents (if any); or
- (b) receipt of further particulars; or
- (c) expiration of time-limit for supplying further particulars.

Further, even when the Special Commissioners have intimated their intention to take further action, a notice under Section 250 (1) requiring information, and a direction under Section 245 must be given or made within six months of that intimation. A direction may, exceptionally, be made outside the time limit if it follows a notice under Section 250 (1) given within that period.

Finality

These provisions indicate finality, but questions are sometimes raised as to whether a clearance may be revoked. The word "clearance" is not, in fact, used by the Special Commissioners. The ruling issued is that the Special Commissioners propose "to take no action (or no further action) under Section 245, on the information before them." This wording seems much less final than the words of Section 252 (3). One attempt,

later withdrawn, to revoke a clearance is known. This was due to an alleged misunderstanding in a reconstruction scheme about the incidence of income tax liability between old and new companies. Unless there is palpable withholding of material information, reopening would not seem possible under the Act. If this is to be relied upon, it is important that the precise rules in Section 252 should be followed. One point of some difficulty concerns proposed reconstruction, reduction of capital or distribution of realised capital profits. The Special Commissioners sometimes ask if any such transactions are contemplated. Should they be indicated in advance when applying for clearance? It is thought that this should be done, as the matter may be material in considering whether directors have acted reasonably in arriving at their decision on dividends. The probability of receiving an offer for the shares, or proposals for amalgamation or flotation, seems less immediately relevant, as these do not in advance affect the company itself and the distribution policy.

Practice

The view is increasingly held that annual applications should be made for clearance. Discretion will obviously be used. The small companies, clear at a cursory glance, can be ignored. If there would be little or no surtax liability even on a formal direction, the Special Commissioners would scarcely be interested. In the larger cases, it is satisfactory to know that matters are clear from a surtax direction standpoint. The fact that no communications have been received from the Special Commissioners may lull the directors into a false sense of security. Apart from delays caused by pressure of work, the Special Commissioners may well watch the pattern of a company's figures for a few years before declaring their interest. When this hap-

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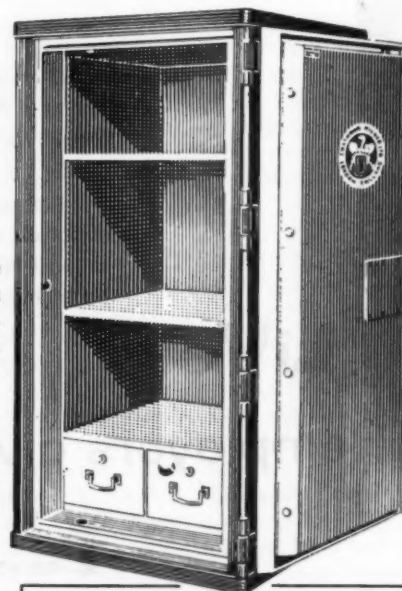
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pens, it may be necessary to declare dividends, or supplementary dividends for some years at a time, as the price of avoiding formal directions, and it would clearly be preferable to avoid such an accumulated liability. Further, when reviewing a series of accounts, the Special Commissioners can hardly fail to be influenced by hindsight. Annual examinations would often lead to different, and more relevant, conclusions. Temerity may be relieved by explaining that, in theory, accounts reaching the Special Commissioners under Section 252 would have found their way in any case. Section 252 applications, in this sense, merely call for attention out of turn. Finally, there is no doubt of the advantage of clearances when an offer is received for the company's shares or for amalgamation or flotation. Submission at once of six years' accounts adds another cause of doubt and delay at an inconvenient time.

Indemnities

On a sale of shares or amalgamation, indemnities against surtax liability which might fall on a company under Section 245 directions are usually sought from vendors. When clearances have been obtained, the wording of these indemnities often seems unnecessarily restrictive. All that is necessary for periods covered by clearances is a covenant that all material disclosures have been made for the purposes of obtaining them.

Surtax on retrospective dividends

When it is agreed that, to avoid directions, dividends should be declared for years already passed, a letter is sent to the Special Commissioners by the company, embodying the intention to declare the agreed dividends and accepting consequential surtax liability thereon. Such dividends will be treated for surtax as part of total income for the year of assessment in which the accounting year or period ended, on the lines of an apportionment following a direction.

Statutory declarations

Section 251 authorises the directors of a company to make a statutory declaration when either:

- (a) a notice requiring particulars has been given by the Special Commissioners under Section 250 (1); or
- (b) a direction under Section 245 has been given in a case in which there was no prior notice for particulars.

The statutory declaration will state the facts and circumstances upon which they base their opinion that there has not been, and will not be, any avoidance

of surtax through failure to distribute to the members of the company a reasonable part of its income for the year or period in question. If the statutory declaration is sent to the Special Commissioners within thirty days of the issue of the notice or the giving of the direction, no further action will be taken, unless they make a positive decision to proceed. Such a decision must be embodied in a certificate to that effect, and this must be sent to the Board of Referees together with the statutory declaration. A copy of both documents must be sent to the Commissioners of Inland Revenue who may, within thirty days of receipt, send a counter-statement to the Board of Referees. The Board must decide, in the light of the statutory declaration, the certificate from the Special Commissioners, and the counter-statement (if any), whether there is a *prima facie* case for proceeding. Their decision is final and conclusive. If it authorises further action, the notice for particulars or the direction (as the case may be) is treated as dating from the notification of their decision by the Board to the company.

The procedure for appeals against directions laid down in Section 247 remains applicable.

Statutory declarations seem now to be rarely made, and it is difficult to enlarge on their practical advantages. Notwithstanding the "all or nothing" character of Section 245, so much is settled by negotiations with the Special Commissioners, either on receipt of a notice for particulars or after application for clearance, that these additional and formal steps usually would be redundant. It is the practice of the Special Commissioners to remind the company or its advisers of the time limit for making a statutory declaration when issuing a notice for particulars under Section 250 (1). If it is desired that the Board of Referees should intervene, this is still possible if the result of an appeal to the Special Commissioners should be adverse to the company.

Companies in liquidation

Section 253 makes special provision for companies which go into liquidation and has been the subject of much litigation and practical difficulty.

Section 253 (1) (a) is directed to the period from the end of the last year or period for which accounts have been made up, to the commencement of liquidation. The income of that period "shall be deemed to be income of that period available for distribution to the members of the company." The first difficulty relates to the making up of

accounts. It was held in *Haldin & Philipps Ltd. v. C.I.R.* (34 T.C. 497) that this refers to accounts which had not been made up at the date of the passing of the winding-up resolution. Further, accounts are not made up until approved by members in general meeting. In the above case, audit reports on accounts for the year to December 31, 1946, and for three months to March 31, 1947, were signed, respectively, on August 1, 1947, and November 1, 1948, and both accounts were approved by members in extraordinary general meeting in April, 1952. Liquidation had commenced on July 15, 1947. These accounts had not, therefore, been "made up" so as to be outside what is now Section 253 (1) (a). That provision covered the period from January 1, 1946, to July 15, 1947, and not, as the company contended, from April 1, 1947, to July 15, 1947. If members' voluntary liquidation is contemplated, every effort should be made to complete accounts for open periods and have them approved by members, if necessary on the same day as, and immediately prior to, the passing of the winding-up resolution.

The second difficulty in Section 253 (1) (a) is to interpret its practical effect, following the quoted reference in the preceding paragraph. It was generally supposed for many years, on the basis of the decision in *H. Collier & Sons Ltd. v. C.I.R.* (18 T.C. 83), that a surtax direction for the period at issue was mandatory on the Special Commissioners and followed automatically on the events. All that Section 253 (1) (a) provides is that income for the period in question is deemed to be income available for distribution. This was clearly prompted by the fact that income of such a period which has not been distributed before commencement of liquidation, under company law loses its character and the underlying assets representing it pass to the liquidator as part of the aggregate assets so passing, and are dealt with as capital in the liquidation. This is an artificial "deeming" provision to ensure that surtax may extend to a fund, as if it were income, which in law is not distributable as such. If income of such a period is deemed to be income available for distribution, and what follows is not mandatory and automatic, the ordinary rules in Section 246 must be followed. In other words, what case could be made for non-distribution if the directors were free to distribute? The general points laid down in Section 246 are to be followed but these are not necessarily all-inclusive. At the same time, it is always difficult and usually impossible to estab-

lish the basic point that retention of profit is required for maintenance and development of the company's business when directors necessarily have knowledge that the company is to be liquidated. Whilst, as a matter of law, directions for periods in question do not follow automatically, it remains, as a matter of practice, most difficult to resist them. It is no answer, in law, to point out that the succeeding company, on a reconstruction, will need the resources representing these profits, as a different legal entity is involved.

The above observations are based on the case of *A. & J. Mucklow Ltd. v. C.I.R.* (35 T.C. 251 and 269).

In applying Section 245 to a company in liquidation, the reference to distribution "within a reasonable time" is deemed to be omitted (Section 253 (1) (b)). This also applies to the year or period for which accounts have been made up which ends immediately prior to the period identified by Section 253 (1) (a). Unless there has been delay in passing accounts of complete periods (as in the *Haldin & Philipps* case, above), Section 253 (1) (a) will apply to the broken period from the last accounting date to date of commencement of winding up, and the following subsection will apply to the last complete accounting period to end before that time. The obvious analogy with income tax assessments is that of final and penultimate years. The omission of the requirement as to distribution within a reasonable time, in relation to the penultimate period, does not seem of great significance and the only way in which it might add to the powers of the Inland Revenue would be in obviating a contention that liquidation followed so closely upon the last complete accounting period as not to have afforded the directors a reasonable time in which to make a distribution of income. Reference has already been made, in relation to sales of shares and amalgamations, to the Special Commissioners being prepared to press their view that a reasonable period might be as short as one day, so the contention would have been of doubtful value.

Responsibility of liquidator

When a company is in liquidation, notices must be served on the liquidator. He is responsible for all the statutory requirements applicable to the company and for payment of any surtax payable by or recoverable from the company (Section 253 (2)). When a liquidator pays surtax on a direction he must not treat this as a charge in arriving at the

balance remaining for distribution to members. He must firstly calculate the amount distributable to each member (leaving the surtax out of account) and then deduct from the amount due to each member the surtax applicable to him. The result is as if the liquidator had paid the tax as agent for each member (*re: Alexander Drew & Co. Ltd.* ([1935] Ch. 93, 13 A.T.C. 670)). When a members' voluntary liquidation is part of a reconstruction scheme, under which the liquidator retains only a fund of cash and investments, and shares in a company which will continue the business, it is usual for liabilities, including taxation, to be taken over by that company and an indemnity given to the liquidator. The Inland Revenue will look to the liquidator for payment of any outstanding liabilities, and will oppose steps to close the liquidation if taxes have not been agreed and paid, costs being sought against the liquidator. Steps may also be taken to restore to the register a company already dissolved before liabilities are discovered.

Income apportioned to members

Section 253 provides (subsection (3)) that income apportioned to a member for the period from the date to which accounts were last made up, to the commencement of liquidation, shall be deemed to have been received at the latter time. This relates to the final broken period, when accounts for the last complete accounting period have been approved before commencement of liquidation, but the *Haldin & Philipps* case must be remembered in this context. Using the accounting periods at issue in that case, income apportioned to a member for the year to December 31, 1946; the three months to March 31, 1947; and for the final broken period to July 15, 1947, would be treated as arising on the latter date. More than eighteen months' income would be treated as arising on the same date and would constitute income for surtax of 1947/48. The relieving provisions contained in Section 238 and Section 249 (2) (c) do not cover these circumstances. The former relates to income receivable under deduction of tax, and the amount apportioned following a direction is only notional income. The latter provision is not applicable because Section 253 (3) is mandatory in fixing the date of commencement of winding-up as the date on which the notional income is deemed to arise. Section 238 may be applicable, however, when a dividend has been received in the same year or that to which apportioned income is related.

Winding-up of other bodies corporate

The surtax direction legislation applies to any body corporate incorporated in any part of the United Kingdom under any enactment. When such a body corporate is not a company incorporated under the Companies Act, 1948, or corresponding Northern Ireland legislation, references to liquidation are modified as follows:

- (a) References to winding up include dissolution or cancellation of registry by any means appropriate to its constitution.
- (b) References to an order or resolution for winding up include any other constitutional means directed to dissolution or cancellation of registry; and winding up shall be deemed to have commenced when such action was taken.
- (c) References to the liquidator include any person in charge of winding up the affairs of the body corporate (Section 255 (1)).

Post-liquidation income

Income received by the liquidator of a trading company is not subject to surtax direction in his hands.

Relationship to profits tax

Since the national defence contribution became profits tax in 1947, it has been the principle that profits tax is not chargeable when undistributed income of a company is made liable to surtax by a direction. Section 31 (2), Finance Act, 1947, provides that profits tax shall not be charged for chargeable accounting periods which correspond with a year or period for which all the income of a company is apportioned for surtax amongst individuals. This refers to the amount finally apportioned, by means of apportionment and sub-apportionment, where necessary (Section 31 (4), F.A., 1947). When, in the result, part only of the income is apportioned to individuals, a claim may be made to have the profits tax amended as if the company's business were carried on by the members in partnership. The shares applicable to individuals, corresponding with their shares of income apportioned for surtax, are treated as not liable to profits tax and the amount appropriate to bodies corporate left in charge. Claim for this treatment is to be made within six months after the end of the chargeable period, by the company and the members who are not individuals. The time limit may be extended by the Commissioners of Inland Revenue. A claim will continue to apply to subsequent chargeable periods which correspond with periods for which surtax directions are made (Section 31 (3), F.A., 1947).

If profits tax remains payable, it is

deductible in computing the actual income of the company from all sources, together with an appropriate amount for income tax. The effect is to deduct an amount which, after deduction of income tax at the standard rate, would be equal to the profits tax paid (Section 68 (1), F.A., 1952). An amount paid by a subsidiary company to its parent as a reimbursement of profits tax (when a grouping notice is in force) is treated as profits tax paid by the subsidiary and a reduction of the liability of the parent (Section 68 (5) (b), F.A., 1952).

Some discussion is heard of the powers of the Inland Revenue to give directions for surtax when profits tax has already been assessed and paid for corresponding periods. The suggestion is that the Inland Revenue are unable to repay the profits tax and then to give a direction. It is not thought that there is substance in this. In the first place, Section 31 (2), F.A., 1947, removes the company from the charge to profits tax which is contained in Section 19, F.A., 1937. There is no provision for relief or repayment—the company is not liable *ab initio*. If payment is made before action is taken under Section 245, it is *prima facie* repayable. Whether or not tax paid under what becomes a mistake in law is recoverable as of right from the Crown, the fact is that this is what actually happens. In any event, it does not seem that there is anything to prevent the Special Commissioners from proceeding under Section 245. If that cannot be disputed, neither should the Revenue's willingness to repay the profits tax.

A point of some importance may arise in relation to liquidations. If a liquidation is closed before surtax liability emerges, and the company is dissolved, there will be difficulty in obtaining profits tax repayment. The only possible course would seem to be an application to the Court by the former liquidator to restore the company to the register. This was accomplished by at least one company affected by compensation receivable on nationalisation of the coal industry.

Finally, the profits tax position must be remembered when negotiating a compromised dividend settlement with the Special Commissioners, and in considering the likelihood of surtax directions. However unreasonably the directors appear to have acted, the Special Commissioners are unlikely to give directions which would make no net contribution to the Exchequer. The existence of members who cannot be reached by apportionments adds point to this consideration. Whilst the Special Commissioners

may be invited, under Section 252, to give a direction, it does not seem that they can be compelled to do so!

Receipts after cessation of trade

Liability to income tax under Case VI arises in respect of certain sums received after discontinuance of a trade (Section 32 (1), F.A., 1960). It follows that a liquidator may be charged in respect of post-liquidation receipts which comprise sums not brought to credit when they arose to the trade before its cessation. They will be capital in the hands of the liquidator but it is provided that they will be deemed to be income for surtax of the members of a Section 245 company. The Special Commissioners may make directions and apportionments from time to time (Section 33 (4), F.A., 1960).

INVESTMENT COMPANIES

Definitions

Sections 257 to 264, Income Tax Act, 1952, modify the provisions relating to surtax directions in the case of investment companies (Section 257 (1)). An investment company is one incorporated in the United Kingdom under any enactment, the income of which consists mainly of investment income. Investment income, in this context, is income which would not be regarded as earned, for income tax, if received by an individual. Amounts apportioned to a company, following a direction, are deemed to be investment income of that company (Section 257 (2)). Earned income is defined in Section 525 of the 1952 Act. The relevant parts cover remuneration from any office or employment, and income charged under Schedules B or D which is derived by the individual from the carrying on or exercise by him of his trade, profession or vocation.

It is a question of fact whether the income of a company consists mainly of investment income, but investment companies are, nevertheless, by no means always readily identified. In particular, on a literal test, the position may vary from year to year in the light of succeeding accounts. It is understood to be the practice of the Special Commissioners to look at the sources of a company's income for a reasonable period, when there are activities which produce, or could produce, income which would not rank as investment income. When a company carries on a trade and incurs losses which exceed its investment income, the net income is nil, and the company is not regarded as an investment company

(*F.P.H. Finance Trust Ltd. v. C.I.R.* (26 T.C. 131)). If, however, trading results (whether profit or loss) do not exceed the amount of the investment income, the Special Commissioners may, in the light of the figures and the general circumstances, regard a company as within the special legislation. The matter cannot be decided, in such a case, entirely on the figures, as the Special Commissioners are required to consider whether the company *exists* wholly or mainly for the purpose of carrying on a trade, and, if they are satisfied that such is the case, automatic directions will not be given (Section 262 (7)). The provisions relating to the making of statutory declarations and submission of accounts for clearances do not apply to cases in which automatic directions *may be given* (Section 262 (2) (b)). The question of requiring the Special Commissioners to apply the investment company provisions will be considered later, in relation to profits tax. (See below, page 680.)

Automatic directions

This does not imply mechanisation at Thames Ditton. The general rule is that the whole of the actual income from all sources of an investment company, for every year of assessment, shall be the subject of a direction by the Special Commissioners under Section 245. The amount distributed (if any) is immaterial and the Special Commissioners must not consider whether, in fact, a reasonable part of the income was distributed (Section 262 (1)).

Exception for holding companies

Automatic directions will not be given if the Special Commissioners are satisfied that a company exists wholly or mainly for the purpose of co-ordinating the administration of two or more trading subsidiary companies (Section 262 (7)). It follows that the policy of the group as to whether reserves should be retained by the parent or subsidiary companies will not, of itself, affect the surtax position. The parent of a single subsidiary is not within this exception. A subsidiary incorporated outside the United Kingdom will not be included in establishing the parent as a co-ordinating company.

Exceptions for estate or trading income

Automatic directions will not be given when all the income of an investment company is "estate or trading income" (Section 262 (3)). That expression means:

(a) income chargeable to income tax under Schedules A and B;

(b) income from ownership or occupation of land which is chargeable to income tax under Schedule D; and

(c) income which is not investment income.

In (b) above, "land" includes tenements, hereditaments and heritages, and income from land, in relation to a building or part of a building, includes furnished lettings (Section 262 (8)).

There are provisions to cover the more common case, when income includes, but does not comprise, estate or trading income. For this purpose, income which is not estate or trading income will be described as investment income. In strictness, categories (a) and (b) of the definition set out above are estate or trading income, although also within the definition of investment income. In these cases, automatic directions will be given for the investment income (i.e. all income except estate or trading income). The estate or trading income will be separately considered as if it were the whole income of a company within Section 245 which is not an investment company (Section 262 (4)). In considering whether a reasonable distribution of this income has been made, the Special Commissioners must regard as available for distribution (in addition to the sums set out in Section 246) a "sum expended or applied, or available to be expended or applied, out of the income of the company in or towards the redemption, repayment or discharge of any loan capital or debt" to a "loan creditor" (Section 258 (1)). "Loan creditor" means a creditor for a debt incurred by the company:

- (a) for money borrowed, or capital assets acquired, by the company; or
- (b) for any right to receive income created in favour of the company; or
- (c) for consideration the value of which to the company (at the time when the debt was incurred) was substantially less than the debt (and any premium thereon); or
- (d) for any irredeemable loan capital issued by the company.

There is dispensation for money lent in the ordinary course of banking (Section 258 (4)).

In considering whether a reasonable distribution of estate or trading income has been made, income distributions are to be treated as primarily made out of investment income. Only the excess of such distributions over investment income may, therefore, be taken into account in considering whether a reasonable distribution of estate or trading income has been made. Outgoings which may be deducted in computing estate or trading income may be attributed to such income, for this purpose, only to the extent that the Special Commissioners

consider appropriate. Similarly, outgoings which may be deducted in computing investment income may be attributed to such income only to the extent that the Special Commissioners consider appropriate (Section 262 (4), provisos (i) and (ii)).

In computing the actual income from all sources of an investment company, no deduction may be made which would not be allowable from the total income of an individual for surtax, except for:

- (a) an amount which, after deduction of income tax at the standard rate, is equal to the profits tax payable by the company (Section 68 (2), F.A., 1952); and
- (b) such management expenses as the Special Commissioners consider reasonable, having regard to the requirements of the company's business. In the case of directors' fees or other payments for services, there is the further requirement that the Special Commissioners must have regard to the actual services rendered to the company (Section 262 (2), proviso (a)).

Election re estate maintenance expenditure

Notice may be given to the Special Commissioners, within six months after the end of a year of assessment, requiring that the excess of estate expenditure which would be relevant to a maintenance claim, over the estate or trading income (computed before deduction for maintenance expenditure, including the authorised deduction for repairs in Schedule A and excess rents assessments) be deducted from investment income. Apart from this election, the actual income from all sources would include the statutory estate income, namely, net Schedule A assessments, excess rents assessments under Case VI of Schedule D, less claims as allowed for income tax, including maintenance relief normally computed by reference to average expenditure incurred in the five years preceding the year of claim. Such relief, if any, may differ materially from the actual maintenance expenditure incurred in the year for which the surtax computation is being made. Any amount deductible in subsequent years for maintenance relief must be reduced by the amount already taken into account on such an election being made (Section 252 (5)).

Investment companies in liquidation

As automatic directions under Section 262 are given for years of assessment, it is necessary to provide for any broken period up to commencement of the winding up of a company. Such period is to be treated as a year of assessment (Section 262 (6)).

When an order has been made or a

resolution passed for the winding-up of an investment company which is within Section 245, the actual income of the company from all sources from that time is deemed to be income of the members for surtax purposes (Section 263 (a)). References to liquidation will cover comparable constitutional methods of dissolving bodies incorporated in the United Kingdom which are not within the Companies Acts (Section 255 (1)). As the whole of the income during liquidation is deemed to be that of the members, it follows that the distinction between estate and trading income and other income ceases to be relevant when liquidation commences.

The Special Commissioners must give notice to the liquidator from time to time directing that the income for the year or period specified in the notice shall be deemed to be income of the members for that year or period. Apportionments and assessments and charges to surtax will be made (Section 263 (b)).

The procedure and consequences will follow, with any necessary modifications, the general provisions regulating directions under Section 245 (Section 263 (c)).

Questions may arise as to concluding the winding up of an investment company. A liquidator may be ready to close during a year of assessment for which income will be apportionable to members. The liability will not be ascertainable until that year has ended, and the tax computed by adding the amount apportioned to each member to his total income from all sources for that year. It is understood that the Special Commissioners will acquiesce in the termination of winding up, if:

- (a) the members give written undertakings to accept the inclusion in their personal surtax liabilities for the year concerned of the amounts of the income of the company for that year which are appropriate to their respective interests; and
- (b) surtax is paid provisionally at 10s. in the £ thereon. This involves payment of surtax at the maximum rate on all apportioned income, so that repayment will later be required to members not liable to surtax at that rate. For the purpose of these arrangements, it is important that the provisional payment of surtax be made by the members. It may be convenient for the liquidator to arrange this, but he should have a letter of authority from each member, and payments should not be made directly to the Inland Revenue out of liquidation funds.

Apportionment of post-liquidation income to a tenant for life of a deceased member is bad, since the income would be represented by part of the assets dis-

tributable by the liquidator as capital (*Commercial Securities Ltd. v. C.I.R.* (35 T.C. 15)).

Modification of provisions for investment companies

Control by not more than five persons

In addition to the general provisions for ascertaining whether a company is under the control of not more than five persons (Section 256 (2) and (3)), an investment company will be deemed to be so controlled if any five or fewer persons would be entitled as loan creditors to receive, in a liquidation, more than half of the amount available for distribution to loan creditors and members (Section 258 (2)). The expression "loan creditor," as defined in Section 258 (4), was set out above, page 678. The reference to liquidation is notional. A calculation is required of the relative amounts which would be repayable to loan creditors and to members according to their respective rights. If five or fewer persons would be entitled to more than half of the aggregate of these sums, the company will be deemed to be controlled by them and within Section 245. The consequential provisions are:

- (a) Loan creditors will be treated as members (Section 258 (3) (a)).
- (b) For purposes of apportionment, a loan creditor will be deemed to have an interest in the income corresponding to the amount of the company's liability to him (Section 258 (3) (b)).

The foregoing provisions are modified when a loan creditor could be required, under a settlement, to account to a beneficiary, directly or indirectly, for the whole or any part of sums which would be payable by the company in discharge of the liability. If liability to account to a beneficiary extends to the whole amount receivable by a loan creditor, the beneficiary will be treated as the member, to the exclusion of the loan creditor, and entitled to the same interest in the income of the company. If liability to account to a beneficiary extends to part only of the amount receivable by a loan creditor, he and the beneficiary will be treated as members and their respective interests in the income will be apportioned by the Special Commissioners (Section 258 (3), proviso).

The provisions dealing with apportionments to loan creditors will apply whenever an investment company may be treated as controlled by not more than five persons under Section 258 (2), as set out above. It is immaterial whether the company would in any event have been so controlled under the general provisions of Section 256.

"Settlement" includes any disposition, trust, covenant, agreement, arrangement, or transfer of assets (Section 258 (5)).

Apportionment by reference to interests in winding-up

In apportioning income of an investment company, the Special Commissioners may, "if it seems proper to them so to do," attribute to members an interest corresponding to their interest in the assets which would be available for distribution on a winding-up (Section 259 (1)). This will apply to sub-apportionments of income to an investment company, as well as to original apportionments. It will also apply to sub-apportionments even when no direction has been given under Section 245 in respect of the company's own income, i.e. when there will be no original apportionment (Section 259 (2)).

Non-members able to secure benefits

Special powers are reserved to the Special Commissioners to treat as a member of an investment company any person who, in their opinion, is, or is likely to be, able to secure that income or assets, present or future, will be applied directly or indirectly for his own or his wife's benefit (Section 260 (1) and (6)).

Apportionment by reference to ability to secure benefits

Special powers are reserved to the Special Commissioners to apportion the income of an investment company, by reference to the ability of any person to secure that income or assets, whether present or future, will be applied directly or indirectly for his own or his wife's benefit. These will apply not only to a non-member notionally treated as a member, as set out in the preceding paragraph, but to members whose powers in this direction are out of relation with the amount of income which would otherwise be apportioned to them (Section 260 (2)).

Whether a person is deemed to be able to secure that income or assets will be applied for his benefit depends on the facts of the situation, not on rights at law or in equity. Before drawing the inference that a person has such a power, the Special Commissioners must be satisfied that he has, directly or indirectly, transferred assets to the company of a value greater than the value which could be placed on his interest in apportioning its income. The Special Commissioners must also be satisfied that persons either as directors, shareholders or otherwise, having powers or rights of disposal or application of income or assets are likely to act in accordance with the wishes of

the person in question. This will also extend to his ability to secure that persons who will have these powers at the material times will be persons likely to act in accordance with his wishes (Section 260 (3)).

Appeal may be lodged against apportionments made under these special powers (Section 260 (5)).

When apportionment is made other than according to the register of members in accordance with these special powers, it may be that an income distribution made to a shareholder will exceed the amount apportioned to him. The excess of the amount received over the amount finally apportioned will be eliminated from his total income for tax purposes (Section 260 (4)).

For the purposes of Section 260, "assets" includes property or rights of any kind, and "transfer," in relation to rights, includes creation of those rights. References to apportionments include sub-apportionments (Section 260 (6)).

Procedure when automatic apportionments are not applicable

Section 261 applies when the whole of the income of an investment company is not subject to automatic apportionment under the succeeding section, i.e. to the extent of estate or trading income, and in the case of a company which either exists mainly to carry on a trade or to act as a co-ordinating holding company (Section 262 (7)). In these cases, the Special Commissioners may give a direction under Section 245 if it appears to them that the company has not within any year of assessment made an income distribution of a reasonable part of its actual income from all sources for that year, income being regarded as available for distribution as and when it became due and payable to the company. For this purpose, the general provisions relating to directions, which refer to accounting years or periods, are modified to apply to years of assessment. When winding-up has commenced, either the period from the last accounting date to that time, or the period from the end of the last year of assessment to that time, may, at the discretion of the Special Commissioners, be treated as a year of assessment.

An amount apportioned to a member under this provision will be deemed to have been received by him on the last day of the year of assessment for which the direction is made.

From the amount apportioned to a member, there will be deducted, in assessing and charging surtax, any amount distributed to him in the same

year of assessment out of the income of that year, which is liable to be included in his return of total income (Section 261 (2) (a)). When a direction has been given for a year of assessment, and an income distribution is made after the end of that year, the above subsection will not apply. The distribution may be excluded from double liability to surtax by Section 249 (5), which covers all surtax directions.

When the process of apportionment is pursued through a chain of connected companies (Section 254), the amount deemed to be income of the members of the second or subsequent company shall, if that is an investment company, be the excess of the amount apportioned to the company over income distributions received from the first company in the year of assessment out of its income for that year (Section 261 (2) (c)).

Statutory declarations and applications for clearance may be made by an investment company unless all its income is subject to automatic apportionment. Section 252, governing clearances, is modified so as to apply to years of assessment (Section 261 (3)).

Power to obtain additional information

A general power is given to the Special Commissioners to require from investment companies by notice in writing such particulars as they think necessary for the purposes of the provisions regulating surtax directions. A time limit of not less than twenty-eight days may be specified in the notice (Section 264 (1)). In the case of an investment company, the power in Section 250 (4) to call upon a

member to disclose the beneficial owner of the shares is extended to loan capital (Section 264 (3)).

There are penalties for failure to comply with a notice requiring particulars, or to give information as to the beneficial owner of loan capital. These are now within the general provisions for failure to make returns under Sections 46 and 47, F.A., 1960.

Investment companies and profits tax

The exception from profits tax provided by Section 31 (2), F.A., 1947, applies only when the actual income of the company from all sources is the subject of a surtax direction. It follows that there will be profits tax liability on the whole of the income of the company, as computed for that tax, when there is estate or trading income in respect of which a surtax direction has not been given. Unless estate or trading income is material, this would suggest a policy of non-distribution, so as to invite action under Sections 245 and 261.

The decision in *Special Commissioners of Income Tax v. Linsleys (Established 1894) Ltd.* (in liquidation) (37 T.C. 677) is such that those interested might be forgiven for thinking that the year in parenthesis should be 1984. The company's trade ceased on April 1, 1952, whence there was no trading income before liquidation commenced on May 7, 1953. The profits tax liability for the chargeable period from April 1, 1953, to May 7, 1953 (including distribution charge under rules then applicable), was £18,987, of which the proportion from April 6, 1953, to May 7, 1953 (thirty-two

days out of thirty-seven), was £16,421. Following Section 68 (2), F.A., 1952, the gross equivalent with income tax at 9s. in the £, was £29,856. The investment income of the part year of assessment was estimated at £8,920. The company was treated as an investment company for 1952/53 and automatic directions given. For the part year 1953/54 no direction was given on the ground that the actual income was nil (£8,920 being less than the deduction for profits tax, £29,856). The company applied by Order of Mandamus requiring the Special Commissioners to give a direction from April 6, 1953, to May 7, 1953, so that the company and its corporate members could elect under Section 31 (3), F.A., 1947, that it should not be chargeable to profits tax for the period from April 1, 1953, to May 7, 1953. If a direction were given, the profits tax would not be payable, there would be no deduction for profits tax in arriving at the apportionable income, and the latter would be left at £8,920. It was, however, held that there could be no direction unless the company had actual income, and in determining whether it had an actual income there must be a deduction for profits tax which was payable and would remain payable if no direction were given. This unfortunate result is unlikely to be repeated now that profits tax (without liability on distributions) should not be greatly out of relation to the income arising in the same period. The principles of the relationship between profits tax and surtax directions remain valid.

[Concluded]

Taxation

Profits Tax Computations

WHERE THERE IS a change in the rate of profits tax and the computation embraces losses brought forward, franked investment income (F.I.I.) and abatement, there might seem at first sight to be several methods of doing the computation. The following notes may, therefore, prove helpful.

The Fourth Schedule to the Finance Act, 1937, paragraph 2 (2), provides that a loss *may* be carried forward and deducted from the profits arising in the next relevant accounting period [the word "relevant" has no longer any significance] and, if and so far as the loss exceeds those profits, the balance of the loss is to be carried forward and set off against the profits of the next accounting period.

From the judgment of Lord Clyde in the case of *C.I.R. v. South Georgia Co. Ltd.* (1956) 37 T.C. 725, it is clear that the word "profits" in this context means the profits exclusive of F.I.I., so that no part of the loss has to be used against the F.I.I. Therefore, where the loss exceeds the profits of the accounting period in which the change of rate takes place, no question of apportionment will arise, as there is no liability for that period; the balance of the loss is merely carried forward to the next accounting period.

If the profits of the accounting period (excluding F.I.I.) exceed the loss brought forward, then, in accordance with the decision in the case of *Standage Power Couplings Ltd. v. C.I.R.* (1951) 29 T.C. 512, the loss must first be

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deducted from the profits of the accounting period before the abatement provisions are applied. When these profits, including F.I.I., are below £2,000 (so that even apart from the loss there would be no liability) the procedure is the same. It follows that the part of the loss so used is, in effect, wasted.

On a change in the rate of profits tax during an accounting period, paragraph 1 (1) (b) of the Fourth Schedule to the Finance Act, 1956, requires that the period before and the period after the change of rate has each to be regarded as a separate chargeable accounting period (C.A.P.).

The balance of the profits of the accounting period excluding F.I.I. (after deducting losses brought forward) has then to be apportioned to the C.A.P. in accordance with the provisions of Section 20 of the Finance Act, 1937. Under sub-Section 4 apportionment is normally on a time basis by reference to months and fractions of months unless the Commissioners of Inland Revenue, having regard to any special circumstances, otherwise direct.

The same basis of apportionment has to be used for the profits including F.I.I. as was used for the profits excluding F.I.I. The fact that the dividends (that is, F.I.I.) do not arise evenly over the whole accounting period (or even do not arise at all in one of the two C.A.P.'s) would not by itself be considered by the Commissioners as a "special circumstance" justifying apportionment otherwise than on a time basis. The position might be otherwise if the profits, excluding F.I.I., were apportioned by reference to special circumstances.

The minimum profit and upper abatement limits of £2,000 and £12,000 respectively have also to be apportioned under Section 33 (3) of the Finance Act, 1947. But here the apportionment must be made on a time basis; no discretion is given to the Commissioners to use any other basis on the grounds of special circumstances.

At this stage, a separate computation of the abatement, the taxable profit and the tax payable is required for each C.A.P., using apportioned amounts in all cases. In practice, however, where all the apportionments are made on a time basis it will be found that the same results are obtained by making the apportionment after applying the abatement provisions. This method greatly simplifies the calculation.

The following points should be noted:

- (i) There is no time limit applicable to the carry forward of losses, except that the company must carry on a trade.
- (ii) Interest on tax reserve certificates is not chargeable to profits tax and should, therefore, be ignored in the computation.
- (iii) Only dividends and distributions of profits from a company carrying on a trade, the profits of which are either subject to profits tax (or would be so subject if they were not too small to attract the tax) or are received from another company carrying on such a trade, are deemed to be franked investment income.
- (iv) So much of a dividend as is paid out of exempt trading income of an Overseas Trade Corporation is to be excluded from F.I.I. Such income is therefore chargeable to profits tax in the same way as trading income.

(v) Building society interest has to be included in the profits for the purpose of profits tax. As from August 1, 1958, the amount received or credited has to be grossed up at the standard rate of income tax ruling for the year in which it is received or credited (Finance Act, 1958, Section 26(3)(b)). Such income is not regarded as F.I.I.

Examples:

| | A £ | B £ | C £ | D £ | E £ |
|--|--------|--------|--------|--------|--------|
| Facts: | | | | | |
| Trading profits | 1,000 | 2,000 | 1,000 | 2,000 | 2,000 |
| Taxed interest | 500 | 500 | 500 | 500 | 500 |
| Building society interest received £306; grossed up .. | 500 | 500 | 500 | 500 | 500 |
| Interest on Tax Reserve certificates | 100 | 100 | 100 | 100 | 100 |
| Dividends receivable .. | 1,000 | 1,000 | 1,000 | 10,000 | 10,000 |
| Dividend from O.T.C. out of exempt income | 100 | 100 | 100 | 100 | 100 |
| Rents receivable | 100 | 100 | 100 | 100 | 100 |
| N.A.V. of business premises | 150 | 150 | 150 | 150 | 150 |
| Loss brought forward .. | -3,000 | -3,000 | -300 | -3,000 | -300 |
| Interest on 3½ per cent War Stock | 100 | 100 | 100 | 100 | 100 |
| | A £ | B £ | C £ | D £ | E £ |
| Computation: | | | | | |
| Trading profits | 1,000 | 2,000 | 1,000 | 2,000 | 2,000 |
| Taxed interest | 500 | 500 | 500 | 500 | 500 |
| Building society interest .. | 500 | 500 | 500 | 500 | 500 |
| Interest on 3½ per cent War Stock | 100 | 100 | 100 | 100 | 100 |
| Dividend from O.T.C. .. | 100 | 100 | 100 | 100 | 100 |
| Rents receivable | 100 | 100 | 100 | 100 | 100 |
| | 2,300 | 3,300 | 2,300 | 3,300 | 3,300 |
| Loss, brought forward .. | 3,000 | 3,000 | 300 | 3,000 | 300 |
| Loss, carried forward .. | 700 | | | | |
| | | 300 | 2,000 | 300 | 3,000 |
| Add: F.I.I. | | 1,000 | 1,000 | 10,000 | 10,000 |
| No liability—below £2,000 | | 1,300 | | | |
| | | | 3,000 | 10,300 | 13,000 |
| Less: F.I.I. | | | 1,000 | 10,000 | 10,000 |
| | | | 2,000 | 300 | 3,000 |
| Less: Abatement: | | | | | |
| $\frac{12,000-3,000}{5} \times \frac{2,000}{3,000}$ | | | 1,200 | | |
| $\frac{12,000-10,300}{5} \times \frac{300}{10,300}$ | | | | 10 | |
| | | | | | Nil |
| | | 800 | 290 | 3,000 | |

Apportionment, when on a time basis, would be made at this stage.

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Taxation Notes

Machinery and Plant on Hire

A person to whom machinery or plant (hereinafter called "plant") is let, who is bound to maintain it and deliver it over in good condition at the end of the lease and who will bear the direct burden of the wear and tear, is entitled to claim annual allowances on so much of the capital expenditure on the provision of the plant as the General (or, where appropriate, Special) Commissioners consider just and reasonable (Section 299, Income Tax Act, 1952).

Should the burden of the wear and tear fall direct upon the lessor, the annual allowance can be claimed by him as if he were carrying on a trade. The allowance will be on the plant in use at the end of the year of assessment (Section 299). It appears, too, that the lessor can claim the allowance on any capital expenditure not allocated to him under the Section.

In either case the lessor will be entitled, where relevant, to the investment and initial allowance. Balancing allowances and charges will fall where they accrue.

Allowances to lessors are given primarily by relief from, or repayment of, tax on income from the lettings. Any balance can be carried forward. Alternatively, a claim may be made under Section 324, I.T.A., 1952, to set it off against the other income of the same or (by Section 20 (8), Finance Act, 1954) the following year.

The profits arising to the lessor of non-rateable machinery not taken into account in ascertaining annual value for Schedule A are chargeable under Schedule D, Case VI (Section 474).

It was held in *North Central Wagon and Finance Co. v. Fifield*, 1953, 32 A.T.C. 95, that a trade of letting machinery may be assessed under Schedule D, Case I, and that Section 474 makes no change in the law in that respect.

If plant is bought under hire pur-

chase for use in a business or employment, annual allowances are calculated on the cash price, the excess of the total instalments over the cash price being treated as interest and apportioned over the period of the instalments. Investment and initial allowances, however, are calculated on the capital expenditure due in each basis period.

Illustration:

Plant bought on April 30, 1960, for a deposit of £3,000 and 24 instalments of £1,000 beginning May 31; cash price £25,000. Business makes up its accounts to December 31. Basic rate for wear and tear 10 per cent.

| | £ | £ |
|--|--------------|---------------|
| Cash price | | 25,000 |
| Interest | | 2,000 |
| | | <u>27,000</u> |
| Cash price | | 25,000 |
| 1961/62 Investment allowance—20 per cent on (£3,000 + 8 × £1,000) .. | 2,200 | |
| Initial 10 per cent .. | 1,100 | |
| | <u>3,300</u> | |
| Annual 12½ per cent | 3,125 | 4,225 |
| | <u>6,425</u> | |
| | | <u>20,775</u> |
| 1962/63 Investment—20 per cent on 12 × £1,000 | 2,400 | |
| Initial 10 per cent .. | 1,200 | |
| Annual 12½ per cent | 2,597 | |
| | <u>6,197</u> | 3,797 |
| | | <u>16,978</u> |
| 1963/64 Investment—20 per cent on 4 × £1,000 | 800 | |
| Initial 10 per cent .. | 400 | |
| Annual 12½ per cent | 2,122 | |
| | <u>3,322</u> | 2,522 |
| | | <u>14,456</u> |

It must be remembered that allowances on motor cars costing more than £2,000 are limited where the car is not used for hire to or the carriage of members of the public in the ordinary course of trade.

Schedule A Maintenance Claims

The Inland Revenue has now issued notes on maintenance claims by owner-occupiers, showing how properties are charged to income tax, how maintenance relief works, who can claim relief and how a newly acquired house is dealt with, and summarising the expenditure which can or cannot be included in the claim. The method of claiming relief, how it is given, the time limit and appeals are also dealt with. The notes do not set out to cover every detail, nor do they deal with points relating only to claims by landlords or by farmers. It is noteworthy that the inclusion of capital allowances in a maintenance claim is not mentioned, presumably because it will seldom apply to the ordinary owner-occupier.

The leaflet is to be sent out with all new and renewal claims for maintenance relief. The claim forms for owner-occupiers have been simplified.

Compensation for Loss of Office

When on the retirement of a director or employee from a United Kingdom office or employment a lump sum payment (colloquially termed a "golden handshake") is contemplated, otherwise than:

- (a) under an obligation incurred before April 6, 1960; or
- (b) in respect of death, injury or disability; or
- (c) in respect of a restrictive covenant (this is caught for surtax under Section 242 of the Income Tax Act, 1952); or
- (d) under Section 386 (retirement benefits schemes) or an authorised scheme under Section 387,

the payment can easily attract excessive taxation if not carefully planned. This can be seen from the following illustrations:

Illustration 1

Although his contract of service had still seven years to run, A was to retire on March 31, 1961, as a result of a takeover. His remuneration had been static for four years at the rate of £4,000 per annum, and a payment of £17,000 was proposed as compensation for loss of office. A had other income of £2,000 per annum (unearned). He had been employed for fifteen years.

Under Sections 37 and 38 and Schedule IV to the Finance Act, 1960, the calculations would proceed:

| | |
|-------------------------|----------|
| Compensation | £ 17,000 |
| Deduct: Exempted .. | 5,000 |
| Amount liable to tax .. | 12,000 |

It must be noted that the relief in respect of the standard capital superannuation benefit does not apply to compensation for loss of office (Para 3 of the 4th Schedule).

| | | |
|--|-------|---|
| (A) Other income in 1960/61: | £ | £ |
| Unearned | 2,000 | |
| Salary | 4,000 | |
| | 6,000 | |
| Earned income relief (E.I.R.) | 890 | |
| Personal and child allowance (P.A., etc.) .. | 340 | |
| | 1,230 | |
| | 4,770 | |

| | | |
|--|-------|-------|
| First £360 at reduced rates (R.R.) | £ | s. d. |
| £4,410 at 7s. 9d. .. | 84 | 0 0 |
| | 1,708 | 17 6 |
| | 1,792 | 17 6 |
| Surtax on £5,800 .. | 732 | 10 0 |
| | 2,525 | 7 6 |

| | | |
|-----------------------------------|--------|-------|
| Tax on liable compensation: | £ | s. d. |
| Less: E.I.R. | 12,000 | |
| | 660 | |
| | 11,340 | |

| | | |
|---|-------|-------|
| £11,340 at 7s. 9d. | £ | s. d. |
| Surtax (on £17,800 less £5,800 above) 5,130 0 0 | 4,394 | 5 0 |
| | 9,524 | 5 0 |

(B) Disregarding other income from the employment and taking the number of years of unexpired service as not exceeding six:

| | | |
|------------------|---------|-------|
| Compensation ÷ 6 | £ 2,000 | £ — |
| Other income | 2,000 | 2,000 |
| | 4,000 | 2,000 |
| E.I.R. | 445 | |
| P.A., etc. | 340 | 340 |
| | 785 | |
| | 3,215 | 1,660 |

| | | | | |
|-------------------------|-------|-------|---------|----------|
| First £360 | £ | s. d. | £ | s. d. |
| £2,855 at 7s. 9d. | 84 | 0 0 | 84 | 0 0 |
| | 1,106 | 6 3 | (1,300) | 503 15 0 |
| | 1,190 | 6 3 | 587 | 15 0 |
| Surtax on £3,800 | 252 | 10 0 | — | — |
| | 1,442 | 16 3 | 587 | 15 0 |

6 (£1,442.16.3—£587.15.0)=£5,130 7 6
Tax on compensation is therefore reduced to this amount (4th Schedule, paragraph 7).

Illustration 2

If it were arranged for A to carry on and retire on April 6, 1961, and for the compensation to be calculated to that date, it would pay him to sell his investments and hold the money until April 6, 1962. The result would be (taking the 1960/61 rates of tax, etc. to give a true comparison):

| | | |
|------------------------|-------|-------|
| (B) Compensation ÷ 6 = | £ | £ |
| E.I.R. | 445 | 2,000 |
| P.A., etc. | 340 | |
| | 785 | |
| | 1,215 | |
| First £360 | £ | s. d. |
| £855 at 7s. 9d. .. | 84 | 0 0 |
| | 331 | 6 3 |
| | 415 | 6 3 |

Tax on compensation $6 \times £415.6.3 = £2,491.17.6$.

The tax saved on compensation would be £5,130 7s. 6d.—£2,491 17s. 6d.=£2,638 10s., at the expense of giving up £2,000 income which would itself have borne tax. He would have also received salary (less tax) for an extra six days.

A payment can rank as compensation for loss of office only if it is made either (a) in pursuance of an order of a court in proceedings for wrongful dismissal or otherwise for breach of employment, or by way of settlement of such proceedings or of a claim in respect of which such proceedings could have been brought; or (b) by way of compensation for the extinguishment of any right the infringement of which would be actionable.

Taxation Conference

The eleventh National Taxation Conference was held in the Town Hall, Bournemouth, from October 20 to 23, under the chairmanship of Mr. P. F. Hughes. After welcoming delegates, the chairman mentioned the surtax reliefs granted since the last Conference and the additional profits tax burden. He did not anticipate any reliefs before the next conference! The Mayor of Bournemouth then gave a civic welcome.

Mr. E. F. George, LL.B., in a paper on *Property Transactions*, dealt with the general principles determining whether a sale of property was the

realisation of an investment or an adventure in the nature of trade. He distinguished the position of a company and of an individual and mentioned the tax relief to owners of industrial buildings, management expenses relief and the provisions of Section 21 to 24 of the Finance Act, 1960.

A series of mock appeals were heard by Mr. T. A. Hamilton Baynes, M.A., F.C.A., Mr. J. R. W. Alexander, C.B.E., M.A., LL.B., F.C.I.S., and Mr. V. R. Chennell, F.A.C.C.A., as Commissioners. Mr. H. A. R. J. Wilson, F.C.A., acted as Clerk for the Commissioners, and Mr. H. F. Hodgkinson (one of Her Majesty's Senior Principal Inspectors of Taxes) as the Inspector. The appellants were represented by Mr. A. L. Philips and members of the staff of *Taxation*.

Mr. J. S. Hodge, F.A.C.C.A., and Mr. A. G. Davies spoke respectively on *The Effect of Taxation on Industry, with particular reference to Hire Purchase Companies*, and *Thoughts on our Present Discontents*. Both pointed out inequities and abnormalities of our present taxation system. Mr. Davies called for reports of Special Commissioners' decisions and explanatory memoranda on Finance Bills, such as are issued in other countries. Many accountants would, we feel, welcome this suggestion.

Mr. G. H. Vieler, F.C.A., read a paper on *Valuation of Stock and Work in Progress*. In a very detailed manner he covered several cases including *C.I.R. v. Cock, Russell & Co.* (1949) 29 T.C. 387, *Patrick v. Broadstone Mills* [1954] 1 All E.R. 163, *Re Anaconda American Brass Limited* [1956] 1 All E.R. 20 and *Duple Motor Bodies v. Ostone* [1960] 2 All E.R. 110. He described the various methods of ascertaining the cost of a product, and listed the alternative methods of defining market value as net realisable value, net realisable value less selling expenses, or current replacement price. Reference was made to the Institute's Recommendations.

Mr. D. S. Morpeth, B.COM., A.C.A., dealt with *Taxation and the Professional Man*—a subject close to the heart of many of his listeners. While not suggesting any specific schemes

for reduction of the taxation burden, Mr. Morpeth referred to the method of assessment on partners, cash basis and earnings basis of computing assessable profits, service companies (which he did not in smaller cases consider were necessary) and estate duty.

Taxation Synopses

New editions of these popular publications* have been published. All are thoroughly recommended.

In the *Chart-Manual* income tax and surtax are brought up to July, 1961. It includes the provisions of the Finance Act, 1961, with the

* *Tolley's Income Tax Chart-Manual 1961/62* (46th edition), price 18s. 6d. *Tolley's Synopsis of Profits Tax* (25th edition), price 6s. *Tolley's Synopsis of Estate Duty* (12th edition), price 6s. *Tolley's Synopsis of Taxation in the Republic of Ireland*, price 2s. 6d. *Tolley's Synopsis of Taxation in the Channel Islands and Isle of Man*, price 6s. Compiled by Kenneth Mines, F.T.I.I., and L. E. Feaver, F.C.I.S. (Chas. H. Tolley & Co., 33 Nottingham Place, London, W.1.)

important changes regarding capital allowances for motor cars, double tax relief and earned income allowance for surtax.

Double Taxation

The Double Taxation Agreement between the United Kingdom and Pakistan, which was signed in London on April 24, 1961 (see *ACCOUNTANCY*, May, page 294), has now been published as a Schedule to a draft Order in Council. The Agreement provides for the avoidance of double taxation of income and profits, and is expressed to take effect in the United Kingdom from April 6, 1960.

A Double Taxation Agreement between the United Kingdom and Portugal for the avoidance of double taxation of shipping and air transport profits was signed in Lisbon on July 31, as noted in *ACCOUNTANCY*

for August, page 493. This also is now published as a Schedule to a draft Order in Council. It takes effect as from April 1, 1952.

Notes have been exchanged between the British and Danish Governments, extending the convention of March 27, 1950, to the Faroe Islands; and also between the British Government and the Swiss Federal Council, extending to the Federation of Rhodesia and Nyasaland the convention signed on September 30, 1954.

Following earlier discussions in 1956 and 1959, negotiations for a double taxation convention between Japan and the United Kingdom were held in Tokyo from October 23 to November 7. Agreement was reached at the official level, subject to further consideration of certain points, and a draft convention was initialled.

Recent Tax Cases

Income Tax—Undischarged Bankrupt

Question for Determination:

Whether income tax assessments under Schedule E were correctly made on the appellant, notwithstanding that an order adjudging him bankrupt remained undischarged throughout the tax years under appeal (Bankruptcy Act, 1914, Sections 38, 51—Income Tax Act, 1952, Section 156—Finance Act, 1956, Schedule II—Income Tax (Employments) Regulations, 1950, Regulation 53).

Particulars of Case:

In *Hibbert v. Fysh* (Ch. 1961, T.R. 199) the appellant was assessed for 1958/59 and 1959/60 in 1961, T.R. 199) the appellant was assessed for 1958/59 and 1959/60 in respect of the earnings from his employment as a waiter. From 1939 to 1948 he had carried on a business, but in the latter year he was adjudged bankrupt. No order to attach any part of his earnings subsequent to his bankruptcy was made under Section 51 of the Bankruptcy Act, 1914, or otherwise; and the appellant did not suggest that he had paid over to the Official Receiver the whole or any part of his earnings as a waiter in respect of the two years for

which assessments were made. These subsequent earnings were used by him for his own purposes. The appellant contended that, as he was an undischarged bankrupt, the money he earned subsequent to his adjudication was not his, and that he ought not to have been assessed to tax on it. The General Commissioners decided in favour of the Crown and the taxpayer appealed.

The Judgment: Plowman, J., said the authorities (*In Re Roberts* (1900) 1 Q.B. 122; *Affleck v. Hammond* (1912) 3 K.B. 162; *Bailey v. Thurston* (1903) 1 K.B. 137) showed that the personal earnings of a bankrupt did not vest in his trustee in bankruptcy in so far as they were required for the maintenance and support of himself and his family; and that even to the extent that they were surplus to that requirement, the trustee in bankruptcy must intervene before he could lay any claim to such surplus. The Crown contended on the analogy of another case—*In Re Walter* (1929) 1 Ch. 649—that its claim as a creditor in respect of income tax ought to be paid out of the fund of personal earnings the appellant claimed title to and received before anything went to the trustee in bankruptcy

in respect of those earnings. That contention seemed to be correct, since the income his Lordship was considering was never received by and never vested in the trustee in bankruptcy; consequently, the appellant was liable to tax on that income. The Crown also sought to found its case on the broad general principle that it was irrelevant to look further than the fact that the money in question was paid to the appellant and had not been paid by him to the trustee (see *Joly v. Pinhoe Nurseries Ltd.* (1936) 20 T.C. 271, 277); and that the Income Tax Acts ought to be read as applying to the person who in fact received the income which it was sought to tax, irrespective of complications introduced by the bankruptcy legislation. His Lordship said that might be so, but he would decide the case on the narrower ground of the Crown's first contention.

Summary: The assessments in question were competent, as they were made in respect of earnings used by the appellant for his own purposes and never received by and never vested in the trustee in bankruptcy.

Income Tax—Annual Payment made to Trading Company

Question for Determination:

Whether, in the circumstances of the case, a trading company which made a

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loss to which Section 341 of the Income Tax Act, 1952, applied could recover tax on an annual payment under covenant made to it by another trading company which was a substantial shareholder in the first company (Income Tax Act, 1952, Sections 123, 341—Finance Act, 1953, Section 15(3)).

Particulars of Case: In *British Commonwealth International Newsfilm Agency Ltd. v. Mahany* (Ch. 1961, T.R. 217), the appellant company was incorporated on March 8, 1957, for the purpose of supplying visual news on a world-wide scale and of preventing the supply of such news material being dominated by American interests. The subscribers to the company were Rank Organisation Ltd. (Rank) and the British Broadcasting Corporation (B.B.C.). Each held an equal number of shares in the company and each appointed the same number of directors. Later, the Canadian Broadcasting Corporation and the Australian Broadcasting Corporation also took shares in the company, and each appointed a director. It was expected that in the early years the company's activities would not be profit-earning, and on October 31, 1957, Rank and the B.B.C. agreed that each of them would pay to the company a sum equal to half the amount of the deficit. The agreement recorded that any profits earned by the company should be applied first in improving the quality and extending the range of the service, and secondly in reducing the amount payable by subscribers for the benefit of the service.

In March, 1958, it was apparent that the company would make a loss for the accounting period ending on the last day of that month, and that Rank and the B.B.C. would be called upon to make payments to cover the loss. Rank was advised that it was at any rate doubtful whether the payments to be made by it would be an admissible deduction in computing its profits, for the reason that it had never had any business dealings with the appellant company, though some of its subsidiaries had had such dealings. In the hope of improving the tax position, Rank and the B.B.C. each covenanted with the company on March 28, 1958, to pay to it annually during the years 1957/58 to 1964/65 a sum equal to half the amount of the deficit. The deficit for the period from March 8, 1957, to March 31, 1958, was £125,180, of which Rank's share was £62,590. Rank sent the company a cheque for that amount, less tax, together with a tax deduction

certificate for £26,600 17s. 2d., which the company claimed to recover from the Revenue. It contended that the payment under covenant was not a trade receipt because there was no *quid pro quo* for it, and because Rank had had no trading relationship with the company during the relevant tax year. The Crown contended that the payment was a trade receipt in the hands of the company. The Special Commissioners found for the Crown, and the company appealed.

The Judgment: Plowman, J., said it was common ground between the parties that annual payments which were trading receipts in the hands of the recipient were excluded from Case III of Schedule D. The crucial question was: "What is a trade receipt?" In *Lincolnshire Sugar Co. Ltd. v. Smart* (1937) 20 T.C. 643, advances made under the British Sugar Industry (Assistance) Act, 1931, to a company carrying on business as manufacturers of sugar beet were held to be trading receipts and liable to income tax under Case I of Schedule D; and so, in *Ostime v. Pontypridd and Rhondda Joint Water Board* (1946) 28 T.C. 261, were payments in the nature of a subsidy from public funds made to a water undertaker to assist in carrying on the undertaker's trade or business. The position was otherwise in *C.I.R. v. Corporation of London (as Conservators of Epping Forest)* (1953) 20 T.C. 643. In that case the Corporation contributed annual sums, less tax, to make good the deficiency on income account of the Forest Conservators (who were regarded as a separate entity set up for charitable purposes). A claim by the Conservators to repayment of tax was held by the House of Lords to have been rightly admitted by the Special Commissioners.

Plowman, J., said the ground of distinction was that in the *Epping Forest* case the receipts were not of a business nature and the business test could not therefore be applied. The House of Lords did not, however, regard the fact that the receipts were not of a business nature as of itself concluding the case in favour of the taxpayer. It went on to adopt another test, namely, whether the payment in question was made without conditions and counter-stipulations, or, in other words, without consideration or any *quid pro quo*. The House did not decide that the test of consideration was a test to be applied to the exclusion of the business nature test; nor did it decide that in the case of a payment of a business nature the

question of consideration was necessarily the primary test to apply. Once the test of consideration or *quid pro quo* as an exclusive test was rejected, there was ample evidence in the present case for the Commissioners' finding. The appellant company was a trading company, the payment was intended to be used in its trade and was so used, and no payment would fall to be made under the deed of covenant unless the company was trading. There was also the Commissioners' finding that without the sums received under covenant the company could not meet its obligations and continue trading. The appeal would therefore be dismissed.

Summary: The payment under covenant was a trading receipt of the appellant company and was liable to tax.

Income Tax—Occupation of Woodlands

Questions for Determination: (i) Whether an election to be assessed under Schedule D, instead of Schedule B, in respect of the occupation of woodlands made the occupation a trade; and, if the occupation was a trade, (ii) Whether growing timber was trading stock (Income Tax Act, 1952, Sections 83, 124, 125, 143, 279, 302, 323—Finance Act, 1954, Section 18).

Particulars of Case: In *Coates v. Holker Estates Company* (Ch. 1961, T.R. 249) the respondent company from 1931 to August, 1954, occupied woodlands which it managed on a commercial basis with a view to the realisation of profits. It elected under the Income Tax Act, 1918, Schedule B, rule 5 (2) (now Section 125 (1) of the Act of 1952), to be assessed to tax under Schedule D instead of Schedule B. The woodlands were under the supervision of a qualified forester and were regularly thinned, the thinnings being mostly used for fencing the plantations and any surplus being sold to local farmers. Fellings were made from time to time, but about 90 per cent of them were effected by one or other of two merchants with whom the company dealt. The merchants were invited to tender for the purchase of the designated timber, and they felled the timber themselves. The growing timber had not been treated as trading stock in the company's accounts. On August 3, 1954, the company conveyed the woodlands to a purchaser and ceased to occupy and manage them itself. In respect of the period from April 6, 1954, to August 3, 1954, the Revenue sought

to treat the growing timber as trading stock for the purposes of Section 143 of the Act of 1952. The company appealed to the Special Commissioners and contended (i) that the election for assessment under Schedule D did not make the occupation of the woodlands a trade, and (ii) even if it did, the growing timber was not trading stock within the meaning of Section 143 (2). The Commissioners decided against the company on the first point, but for the company on the second point. The Crown appealed.

The Judgment: Plowman, J., said that woodlands were included in Schedule B by Section 83 (5) of the Act of 1952, but that a right of election to be assessed under Schedule D was given by Section 125 (1) where the occupier managed the woodlands on a commercial basis with a view to the realisation of profits. Sub-Section (2) of that Section provided that, where an election was made, the profits or gains arising from the occupation were to be deemed to be profits or gains of a trade chargeable under Schedule D. But that was not to say that the occupation of the woodlands itself was deemed to be a trade. "Merely by deeming the offspring to be something it (was) not—(did) not change the nature of the parent." Section 143 (1) provided that:

In computing for any income tax purpose the profits or gains of a trade which has been discontinued, any trading stock belonging to the trade at the discontinuance thereof shall be valued as follows...

But if his Lordship was right in saying that the occupation of the woodlands was not a trade, that sub-Section did not apply to the present case, because no trade had been discontinued. The view which he had formed was confirmed by a number of other provisions in the Act of 1952. Section 302 (1) said in effect that, although the occupation of woodlands was not a trade, the provisions of Section 279 applied as if it were, so that the occupier became entitled to capital allowances in respect of plant and machinery. Section 323 (5) also recognised that the occupation of woodlands managed on a commercial basis and assessed under Schedule D was not in fact a trade at all, although for the purposes of Section 323 (which deals with capital allowances and charges that arise in connection with assessments under Schedules D and E) it was to be treated as if it were. And, finally, sub-Section (11) of Section 18 of the Finance Act, 1954, provided that that Section

was to apply to a terminal loss sustained by the occupier of woodlands as it applied to a terminal loss sustained in a trade.

Strictly, therefore, the second question did not arise, but his Lordship dealt with it in case he was wrong on the first point. He said it was not possible to divorce the bare occupation of woodlands from the activities that were carried on there. The company dealt in timber, sometimes felled, but sometimes standing. When standing timber was sold, it was for short-term felling, not as long-term growth stock. The timber thus sold was goods, not lands. Nor was it an interest in land, as appeared from the case of *Marshall v. Green* [1875] L.R. 1 (cf. *Kauri Timber Co. Ltd. v. New Zealand Commissioner of Taxes* [1939] A.C. 771). The company's profits were not, therefore, derived from trading in land. The woodlands which the company bought in 1931 were the source of its supply of timber, but they were fixed capital when purchased and they remained so throughout. Therefore, the company was right in both its contentions.

Summary: The company was not carrying on a trade within the meaning of Section 143 of the Income Tax Act, 1952; nor, if there was a trade, was the growing timber trading stock.

Surtax—Settlement on Settlor's Children

Question for Determination: Whether a settlement in favour of the children and remoter issue of the settlor and their wives, husbands, widows and widowers was, in the circumstances of the case, a revocable settlement, so that the income fell to be treated as the income of the settlor (Finance Act, 1938, Section 38(2)—Income Tax Act, 1952, Sections 397, 398, 399, 404 (2)—Finance Act, 1958, Section 20 (5)).

Particulars of Case: In *Jamieson v. C.I.R.*; *Wills v. C.I.R.* (Ch. 1961, T.R. 235) the appellant Jamieson on August 9, 1950, settled £10,000 for the benefit of his issue (including children thereafter to be born and issue more remote than children) and the wives, husbands, widows and widowers of such issue. At the date of the settlement the settlor had only one child, an infant daughter. The settlement was to continue until the end of twenty-one years from the death of the survivor of the infant child and the settlor's wife. The trustees of the settle-

ment were to hold the trust fund

in trust for all or such one or more exclusively of the others or other of the [beneficiaries] in such shares if more than one and either absolutely or for such successive or other interests or with such trusts and provisions for their respective benefit at the discretion of the trustees or any other persons and generally in such manner for the benefit of the said [beneficiaries] or any of them as the trustees shall from time to time or at any time by any deed or deeds revocable or irrevocable... appoint, provided that no such appointment may be made or revoked whether wholly or in part after the perpetuity date and provided further that the trustees may at any time or times by deed wholly or partially release or restrict the foregoing power of appointment.

Then there was a trust in default of appointment, and various other provisions in the settlement, which were immaterial to the decision of the case. The relevant facts were that (i) the trustees had not exercised the power of appointment or the power wholly or partially to release or restrict the power, (ii) they had accumulated all the income arising under the settlement in the relevant years, and (iii) two further children had been born to the settlor, both of whom were infants.

Surtax assessments were made on the settlor for 1955/56, 1956/57 and 1957/58 on the footing that the income of the settlement fell to be treated as his income. It was contended on behalf of the settlor that the settlement was irrevocable within the meaning of Section 399 of the Income Tax Act, 1952. The Crown contended that the settlement could be determined because the trustees could appoint the whole of the trust fund absolutely in favour of a particular beneficiary. The Special Commissioners decided in favour of the Crown, and the settlor appealed.

The Judgment: Plowman, J., said the question he had to decide turned primarily on the further question whether or not the settlement was irrevocable. If it were irrevocable, it was common ground between the parties that the appeal must succeed by reason of Sections 397–399, inclusive, of the Act of 1952.

Saving exceptions, Section 397 causes the income of settlements made in favour of the settlor's children to be the settlor's income for tax purposes. By Section 398 (1) (a) the income is caught even though it may become applicable for the benefit of the child at some time in the future, and whether contingently

or as the result of the exercise of a power of discretion conferred on any person or otherwise. The effect of Section 398 (2) is that income from a capital settlement is not treated as the income of the settlor provided that the income is accumulated during the child's majority. But the settlement must be an irrevocable one, and Section 399 has therefore to be satisfied. So far as relevant, Section 399 provided that

A settlement shall not be deemed to be irrevocable if the terms thereof provide... (b) for the determination of the settlement by the act or on the default of any person... Provided that a settlement shall not be deemed to be revocable by reason only... (ii) that it provides for the determination of the settlement as aforesaid in such a manner that the determination will not, during the lifetime of any such child as aforesaid, benefit any person other than such a child, on the wife, husband or issue of such a child. [The words "the settlor or the wife or husband of the settlor" were substituted for the words "any person other than such a child, or the wife, husband or issue of such a child" by Section 20 (5) of the Finance Act, 1958, but the earlier wording is the material wording for the purposes of the present case.]

His Lordship said that if the settlement did provide for its determination by the act of any person, the settlor could not pray in aid proviso (ii) to Section 399, because the persons to benefit on the determination of the settlement were not limited to the persons specified in that proviso. Under the terms of the settlement spouses of grandchildren of the settlor might benefit, and they were outside the terms of proviso (ii) before it was amended by the Act of 1958. In *Countess of Kenmare v. C.I.R.* (1958) 37 T.C. 383 (which was a case on Section 38(2) of the Finance Act, 1938—now Section 404 (2) of the Act of 1952) the House of Lords had said it was necessary to look not at the nature of the apparent object of the power, but at its possible effect if it were exercised, and that a power to exhaust the trust fund was a power to determine the settlement. Applying that decision to the present case, the exercise of the power of appointment might release the whole of the trust fund and vest it in an object of the power, so that there was a power to determine the settlement within Section 399 (b).

It had been argued that, at the time when the income was accumulated, the only beneficiaries who could have benefited by an exercise of the power of appointment were the children of the

settlor, and that therefore the settlement was saved from being regarded as revocable by the proviso to Section 399. But the proviso did not permit an escape from Section 399 (b) unless one was able to see, from looking at the settlement, that persons outside the specified class would not benefit if the power were exercised. This test was not satisfied in the present case, as the husband or wife of a grandchild of the settlor might benefit. In these circumstances the appeal of Jamieson would be dismissed, and the decision that the settlement was not irrevocable concluded the case against the appellant Willis, where the point regarding the proviso to Section 399 did not arise.

Summary: The settlements were not irrevocable within Section 399 (b) of the Act of 1952 and, in the case of Jamieson (where this point was taken), the settlement was not saved by proviso (ii) to that Section. Accordingly the income of the settlements fell to be treated as income of the settlors.

Profits Tax—Alteration of Accounting Periods

Question for Determination: Whether, in the circumstances of the case, two dividends were gross relevant distributions for the chargeable accounting period in which they were paid, or whether they had to be apportioned over three chargeable accounting periods in respect of which the Revenue had issued a direction under Section 38(4) of the Finance Act, 1947 (Finance Act, 1937, Sections 19, 20, 22—Finance Act, 1947, Sections 34–38).

Particulars of Case: In *T.S.S. Investments Ltd. v. C.I.R.; Feather Brothers Ltd. v. C.I.R.* (Ch. 1961, T.R. 255), the first appellant company carried on business as a shipowner. On March 8, 1955, it sold its shipping business, but continued to carry on a trade or business within Section 19 of the Finance Act, 1937. On March 15, 1955, it became a wholly-owned subsidiary of another company. On March 16, 1955, it paid two dividends to its principal company, but neither dividend was expressed to be payable in respect of any particular accounting period. (The only reason for the payment of two dividends on the same date was one of internal convenience). Also on the same day, the principal company gave the Revenue a grouping notice under Section 22 (1) of the Act of 1937 in

respect of the chargeable accounting period ending March 31, 1955. As a consequence of this notice the profits arising from the company's trade or business in that period fell to be treated, for profits tax purposes, as profits of the principal company. The twelve months to March 31, 1955, was in fact the relevant accounting period under Section 20 (2) (a) of the Act of 1937, because the accounts of the company's trade or business had been made up for successive periods of twelve months ending on March 31. On May 12, 1959, the Revenue issued a direction under Section 38 (4) of the Act of 1947 that the periods from April 1, 1954, to March 7, 1955, from March 8, 1955, to March 14, 1955, and from March 15, 1955, to March 31, 1955, should be chargeable accounting periods of the company for the purposes of profits tax.

The first appellant company appealed to the Special Commissioners against an assessment to profits tax for the chargeable accounting period from April 1, 1954, to March 7, 1955, in the sum of £4,681 16s., together with a distribution charge of £24,400 7s. 6d., making a total tax charge of £29,082 3s. 6d. It was contended for the company that, pursuant to Section 35 (1) (b) of the Act of 1947, the two dividends had to be treated as gross relevant distributions for the chargeable accounting period in which they were paid, that is to say, the period from March 15, 1955, to March 31, 1955. The Crown contended that Section 37 of the Act of 1947 required that the dividends should be apportioned between the three chargeable accounting periods directed by the Revenue. If the company's contention was right, both dividends would be left wholly out of account in calculating its profits tax liability. The Special Commissioners decided in favour of the Revenue.

The Judgment: Plowman, J., said that the chargeable accounting period for the purposes of profits tax might or might not be the same as the accounting period of the trade or business. If it was not, Section 20 (2) of the Act of 1937 provided that such division and apportionment of the profits and losses of the accounting period were to be made as appeared necessary to arrive at the profits of the chargeable accounting period. The Finance Act, 1947, introduced a complication by providing differential rates of profits tax for distributed and undistributed profits; the machinery was contained in Sections 34 to 37 of the Act. The accounting period

in the present case was the year to March 31, 1955, but the chargeable accounting period was the period March 15, 1955, to March 31, 1955. Section 37 said, in effect, that since the chargeable accounting period was not a period for which accounts were made up, the gross relevant distributions were to be computed, not for the period March 15, 1955, to March 31, 1955, but for the year ending March 31, 1955, as if that were a chargeable accounting period. Section 35 allocated distributions to appropriate chargeable accounting periods for the purpose of determining whether they were gross relevant distributions for those periods. There one found that a distribution, such as the dividends in question, which was not paid in respect of any particular period was allocated to the chargeable accounting period in which the payment was made. Having regard to the hypothesis stated in Section 37, this period could only be the year to March 31, 1955. Thus a conclusion was reached as to the *quantum* of the gross relevant distributions for this fictional chargeable accounting period, and they must then be apportioned between the actual chargeable accounting periods set out in the direction given by the Revenue. The appeal would therefore be dismissed, and this decision would apply equally to the second appellant company.

Summary: The two dividends in question had to be apportioned over the three chargeable accounting periods in respect of which the Revenue had issued a direction under Section 38 (4) of the Finance Act, 1947.

Excess Profits Tax—Deferred Repairs

Question for Determination:

Whether, following the vesting of two electricity undertakings in the appellant Board pursuant to Section 14 of the Electricity Act, 1947, the Board was entitled, in the computation of its liability to excess profits tax, to relief in respect of "terminal expenses" within the meaning of Section 37 (3) of the Finance Act, 1946. (Finance (No. 2) Act, 1939, Section 16 (1)—Finance Act, 1946, Sections 36, 37, Schedule IX—Electricity Act, 1947, Sections 11, 14, 57, Schedules I, IV, V.)

Particulars of Case: In *North of Scotland Hydro-Electric Board v. C.I.R.* (House of Lords, 1961, T.R. 223—previously noted in ACCOUNTANCY for

April, 1961, page 217), the undertakings of the Scottish Power Co. Ltd. and its subsidiary the Grampian Electricity Supply Co. were on April 1, 1948, vested in the appellant Board by virtue of Section 14 of the Electricity Act, 1947. Excess profits tax was imposed by Section 16 of the Finance (No. 2) Act, 1939, but was brought to an end by Section 36 of the Finance Act, 1946, in respect of profits arising after that year. The two companies taken over by the Board had been liable to pay this tax in respect of the years 1940 to 1947. The cost of carrying out necessary repairs and renewals was deductible in computing profits for the tax, but owing to war conditions it had been necessary in many cases to postpone this work, and at the end of the last chargeable accounting period for excess profits tax a large amount remained to be done. Some was done by the two companies between the end of that accounting period and the vesting date, but much remained to be done after the vesting date, and this was completed later by the Board. Under Section 14 of the Act of 1947, the Board became liable to pay all excess profits tax incurred by the companies but not paid by them before the vesting date. The question arose whether the Board was entitled, in computing the tax which thus became payable by it, to deduct the cost of the postponed repairs and renewals which it carried out after the vesting date. A right to deduct the cost of postponed repairs and renewals was given by Section 37 of the Finance Act, 1946, but this relief was available only where there had been no change in ownership. (This position was in line with Section 16 of the Finance (No. 2) Act, 1939, which provided, in effect, that the new owner of a business did not become liable to pay excess profits tax in respect of a period before he became owner, so that it would not be appropriate for him to have relief if he carried out postponed work which would normally have been done by the previous owner.) Nevertheless, the Board claimed to be entitled to relief under Section 37 of the Act of 1946 in respect of its expenditure on deferred repairs by reason of changes in the position brought about by the Electricity Act, 1947 (which nationalised electricity undertakings). The Board of Referees decided that the appellant Board was entitled to this relief, but their determination was quashed by the Lord Ordinary in *Exchequer Cases*. The First Division of the Court of Session adhered to his interlocutor and the Board appealed.

The Judgments: The House of Lords said that the Court of Session had not given full weight to the extent to which the provisions of the Electricity Act, 1947, had altered the scheme of the Finance Acts of 1939 and 1946 in so far as they applied to the transfer of electricity undertakings. Section 14 (7) of the Act of 1947 provided that where any liability vested in an Electricity Board (and admittedly liability to pay excess profits tax vested in the appellant Board) the Board should have the same rights for ascertaining that liability as if it had at all times been a liability of the Board. That must mean that for the purpose of ascertaining the amount of tax payable by the Board the change of ownership of the undertakings effected by the Act must be disregarded, and the amount computed as if the Board had at all times been synonymous with the companies; in other words, as if the Board had been carrying on the undertakings during all the chargeable accounting periods. It was true that in terms of Section 37 (3) of the Finance Act, 1946, "terminal expenses" (that is, the cost of repairs and renewals which were deferred owing to war conditions) must have been incurred by the person carrying on the trade or business, and that the two electricity companies in question ceased to carry on business as at the vesting date. But Section 14 of the Electricity Act, 1947, made a radical change in the incidence of excess profits tax in the case of transferor and transferee authorities, with the result that the authority to which a tax liability was transferred was to have the reliefs which would normally attach to that liability. (Lord Keith delivered a dissenting judgment on the ground that the Act of 1947 contained no express provision amending the Finance Act, 1946. He saw no *a priori* reason why a public board should not take over a liability of its predecessor without being allowed to set against it expenditure on deferred maintenance. Parliament might have thought that the consumer rather than the taxpayer should meet the cost of deferred maintenance in the new set-up.)

Summary: Section 14 (7) of the Electricity Act, 1947, gave the appellant Board the same rights for ascertaining its liability to excess profits tax as it would have had if the liability had been that of the Board in the first place. The change of ownership of the two electricity undertakings had for that purpose to be disregarded, and the Board was entitled to the relief claimed in respect of terminal expenses.

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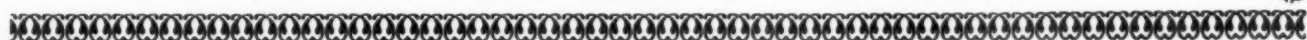
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Machines in Business

Electronic Sorting of Original Documents

Considerable interest is now being shown in the electronic sorting of original documents. *Original Document Processing Ltd.*, the company which exclusively represents the Cummins-Chicago Corporation, showed at the Computer Exhibition the Cummins Electronic Sorter. This scans a series of readable perforated characters printed across the top of a document and eliminates the need for manual sorting.

The company claims that its ODP Coupon Books represent the very latest improvement in the collection of instalment payments. Customers are given a small book of tickets, which they present to dealers when making payment. The instalment to be paid, the customer's account number reference and that of the dealer are punched on each ticket. The dealer detaches the appropriate ticket, at the same time initialling and stamping the corresponding stub, which remains in the repayment book as a receipt. The dealer then forwards the repayment ticket to the hire-purchase company, together with the cash collected, and the hire purchase company is able automatically to update the customer's account record from the information punched in the ticket.

A Model 354 punch is used to prepare the repayment books, data being set on fifteen wheels. The covers of the payment book are folded back, so that only its centre pages are beneath the punch, and the book is pushed back against two small stops. The operator presses an actuating button and immediately the machine punches the required characters in all the repayment tickets. Up to fifteen documents can be punched at a time. If more tickets than this are required, it is a simple matter to divide the payment book into sections of the desired size and punch each section separately. Similarly, if the last payment differs from the remainder, it is a simple matter to punch it independently. Provision is also made for the punching of the month due. A line of

small squares is printed on each ticket, corresponding to the months of the year, the series moving up one for each ticket, so that it is possible to punch a single hole which passes through the appropriate square for each month throughout the series of payments.

Another method of recording data involves the use of a reproducing punch equipped with a mechanical reading unit instead of a keyboard. A master document is prepared for each type of transaction and placed in the reading unit, and a blank book of documents is fed under the punch. The reproducing punch senses the holes in the master and reproduces them in the tickets of the book.

The heart of the installation is the sorter. The Cummins sorter is equipped with thirteen pockets (0 to 9, reject, and two special pockets). Documents are handled at the rate of 550 a minute, and may range from 2½ in. to 4 in. in width and 4 in. to 9½ in. in length. Provided the lengths do not vary by more than 4 in., it is possible to sort documents of varying sizes during the same run.

Another version is a sorter-reader which can be connected to other data processing equipment, such as a paper-tape punch, card punch or magnetic-tape unit. While documents are being sorted into sequence, specific items of data can be read from them and supplied direct to the attached machine. Facilities also exist for the rapid transmission of all or part of the information punched into the document into an inter-connected unit, with opportunities for the keying-in of additional information by the operator.

In process of development is a system involving the coupling of a perforator, via a magnetic tape loop, to the output stage of a computer in order to provide automatic perforation of data into such documents as insurance demand notes on continuous stationery. Probable operating speed is in the region of 150 perforated demand notes per minute.

A complete installation, including sorter, reader, tape punch and add-lister, might cost something like £16,000.

The price of the sorter compares very favourably, at £7,500, with that of the cheapest magnetic-ink sorter, which is around £35,000.

Royal Dairy Show Milking Trial Results by Computer

A LEO electronic computer was used to analyse the results of the milking trials at the 1961 Dairy Show, and produced the names of the winning animals within one hour. Three samples of milk were taken from the three hundred or so cows and eighty goats entered for the trials during the morning, afternoon and evening of Sunday, October 22. They were analysed for butterfat and SNF (solids not fat) content and the information entered on special forms. After checking, the data on the forms was punched on to paper tape and fed into LEO. In addition to milk yield and quality, LEO took into account the animal's vital statistics—its age, breed, date of calving and so on—completing a task which would have taken twenty people, working non-stop in shifts, two complete days.

What is wrong with British Computers?

Figures recently supplied by *Computer Consultants Ltd.* show that there are at present installed in Britain 259 computers, of which 216 are of British origin and have an estimated value of slightly under £18 million, while forty-three are of foreign origin and of an estimated value of £7½ million. There are on order in Britain 261 computers; 122 are of British origin (worth £20 million) and 139 of foreign origin (worth about £18 million). These figures, completely up to date in mid-October, may be compared with a known total (certainly incomplete) of foreign computers on order of 8,500, of an estimated value of £1,095 million.

In addition to the 259 computers installed in Britain, there are installed abroad eighty British computers having a value of about £4 million. This represents this country's contribution to a world-wide installation of computers amounting to nearly 7,500.

The company's commentary continues:

"The British computer manufacturers have in the past criticised the lack of enterprise in Britain to make use of computers. Foreign users are more than half way in their planning to use 16,000 computers. Why have we not been able to obtain even 100 orders from among this large number? Particularly when our computers are on the average lower priced machines. Americans are now selling us the type of machines we could not sell ourselves, let alone them... a sad story in a field we could and should dominate.

"We need computers today as much as we needed the railways a hundred years ago. And when our forefathers were installing railways, the difficulties and size of population did not seem to stop them taking and holding the initiative all over the world.

"The remedy is not simple, but three clues to it are:

greater preparedness to take calculated risks;
more awareness that you can prove anything with accountants' figures and that it is no use trying to apply normal 'slide rule' laws in a new industry; and
crudely that we need more 'guts', drive and faith in our own ability."

High Speed Paper Tape Reader

Notable at the Computer Exhibition for its astounding speed of operation was the High Speed Tape Reader Type D4/83 developed by the Automation Accessories Division of *Associated Automation Ltd.*, a member of the Elliott-Automation Group. Operating speed is in fact infinitely variable, according to computer demand, up to 1,000 characters per second. The tape stops on every character up to 500

characters per second, and remains under complete computer control right up to the maximum speed. The tape can be stopped on any selected character throughout the full speed range. Stopping time is half a millisecond. Holes in the tape are sensed by nine OCP71 photo-transistors, which are illuminated through perspex light guides. Standard paper tape, $\frac{1}{16}$ in., $\frac{7}{8}$ in. and 1 in., of any texture and colour, with five, six, seven or eight bits (plus sprocket hole), may be employed.

Tax by Computer

Eire Revenue Commissioners have placed an order for an ICT Type 1301 computer as part of the policy of centralising taxation accounting for the whole country in order to secure economies and promote efficiency. The computer will undertake all income tax assessments for about a quarter of a million taxpayers. Not only will the machine make all the many calculations covering allowances, reliefs, exemptions and arrears at speeds measured in thousandths of a second, but it will at the same time produce all the statistical analyses for control and record purposes.

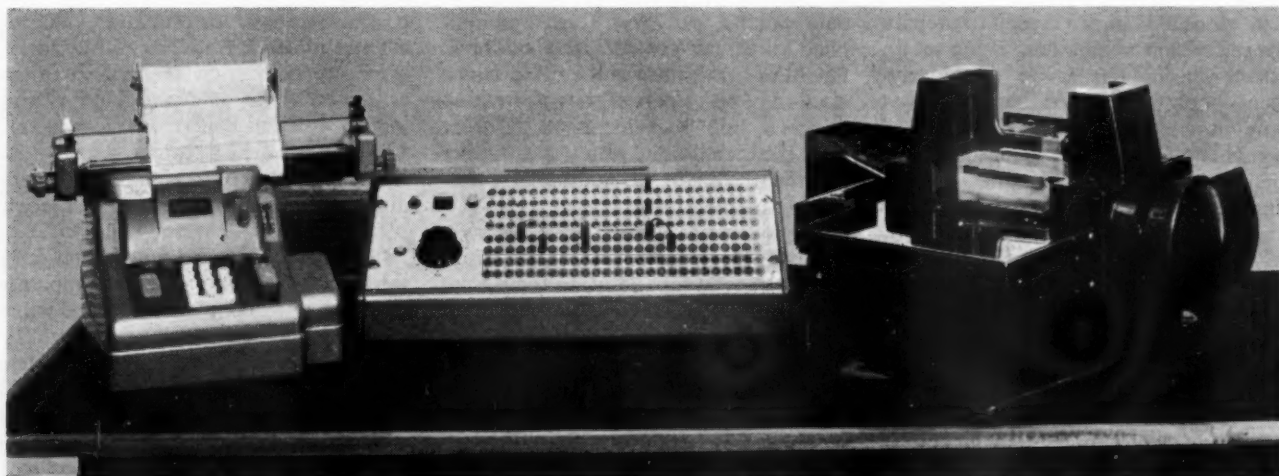
The B47 Stepping Card Reader

Another *Associated Automation* product worthy of notice was the B47 Stepping Card Reader, designed for card operation of machines such as add-listers, accounting machines, electric typewriters, tape punches, line transmission equipment, typesetting machines, looms and machine tools. For demonstration purposes the card reader was coupled to an add-lister with electrical input

facilities, the idea being to release expensive tabulator and verification equipment, as well as to offer normal add-listing facilities in the case of material stored on punched cards.

The name of the device is derived from the motion of the card through the sensing station. The cards, which are fed crosswise from the hopper (holding up to 700 cards), are ejected lengthwise through the sensing station. The first motion takes the card to a position in which the sensing brushes detect the information punched in the first column. The card is held in this position until a feed-back signal indicates that the information has been transferred to the device under control. The card then steps to the next column to be detected, which can be any subsequent column along the length of the card, dependent on the pre-setting of a programme wheel. This cycle is repeated for each subsequent column to be detected. In addition to the transfer of data, a function generator can also be used to operate the device under control at any chosen column. It may, for instance, print out and add the amount or number inserted.

The rate of card feed is primarily determined by the maximum speed of the device under control, and the number of columns of information to be transferred. When stepping from column to column the speed is normally fifteen columns per second and the skipping speed about 350 columns per second. In conjunction with an add-listing machine this gives an average rate of feed of about thirty cards a minute. One operator can supervise several add-listing machines.



B47 Stepping Card Reader add-listing Punched Cards

The use of photocopying equipment is steadily growing. This article briefly examines the several different types of equipment that are available. In particular, the author illustrates how effective photocopying methods can be in improving the routine processing of data in applications which are often not immediately apparent.

Photocopying, a Step Towards Integrated Data Processing

By Percy L. Goodley, F.C.A.

Introduction

INTEGRATED DATA PROCESSING to most people immediately conjures up visions of large-scale electronic computer installations and heavy capital expenditure on such equipment. Photocopying is usually considered only as a means by which copies of documents can be prepared more rapidly than by laborious manual methods. But in many instances the use of comparatively cheap photocopying equipment can lead to integration in the routine processing of data with significant reductions in operating costs.

In all businesses, even the smallest, copies of data and documents are continually being prepared either for circulation within the organisation, or for distribution outside. For many years the preparation of such copies has relied on carbon paper, stencil-type duplicators or often manual transcription. Only recently have the various photocopying processes been recognised as an alternative to such methods. Even now the possible benefits of the new techniques have probably not been fully appreciated or exploited.

By a careful choice of equipment to take full advantage of the many facilities on offer, it is often possible to use photocopying equipment with advantage in the preparation of integrated documentation in, *inter alia*, the following routines:

- (i) Purchase Order; departmental request, supplier's order, delivery progress, goods received note, inspection report, etc.
- (ii) Works Production Order; production order, stores requisition, wage ticket, progress control, inter-shop transfer, goods identification note, etc.
- (iii) Sales Invoice; customer's invoice, advice note, despatch note, stock requisition, packing note, credit control, etc.
- (iv) Storage and selection of microfilmed drawings, etc.

These applications are merely an indication of some of the possible fields that might warrant a detailed investigation, but they are not a full range of the uses to which photocopying techniques might be put. Any prospective user should carefully consider whether further applications within his own organisation can usefully be incorporated into the investigation.

Possible Benefits

The possible benefits include an increased efficiency in data processing and handling routines by virtue of the following:

- (i) The complete accuracy, without the necessity of any form of check routine, of all copies prepared, whether from documents existing in the organisation, from external sources, or held in master information files.
- (ii) The ability to obtain copies of diagrams, drawings and illustrations with complete accuracy without skilled or technical staff.
- (iii) The ease with which the original data on the master file or original document may be amended, added to, or deletions made on all or a selection of the copies being produced.
- (iv) The simplicity of storing large quantities of documents in a comparatively small space by the use of microfilm, and the ease of sorting and selecting from such films if use is made of punched cards with microfilm inserts.
- (v) A reduction of costs over existing methods in many cases, especially as current cost of preparing copies is often not fully appreciated owing to the familiarity with and long usage of existing techniques in any organisation.
- (vi) The ease of providing additional copies over the standard requirement either at the time of making the initial batch or at some later date.

It must be appreciated that the opera-

tion of present-day photocopying equipment is not the skilled and complex operation that is so often imagined. There is still a prevalent misconception that the present equipment is akin to that of conventional photography; that best results require a full understanding of light values, chemical processing of negatives and positives, darkroom techniques, etc.; and that only skilled staff would be capable of operating the various photocopying machines. But, in fact, the considerable improvements that have been effected during recent years have so simplified the operation of such machines that it is always found that existing clerical staff can work the equipment perfectly efficiently after only very little instruction. Indeed, often less skill is required to operate photocopying equipment than is necessary for the established practices in the office under review.

Types of Processes

The prospective user of photocopying techniques is faced with a bewildering variety of equipment and processes, and there can be no ready way of deciding what type of process is best for any particular organisation or routine. The following very brief summary is included only to indicate what is available and what should be considered before any decision is made to install any particular piece of equipment. If it is wished to pursue this matter further, the various brochures issued by the equipment manufacturers and discussions with their representatives will be amply rewarding.

There are at present on the market two basic forms of photocopying equipment. These can be classified as optical and non-optical. Within each category a wide range of equipment and varying processes is available.

Optical Processes

Optical processes generally use some form of camera which is capable of recording on to film or paper. They are frequently used where it is desirable to reduce or enlarge the size from the original document, although same-size copies can be produced by certain types of equipment. In general, such processes are rather more complicated to operate than the non-optical and the equipment is bulkier and more expensive. Nevertheless, they can perform operations which are not possible otherwise.

Non-Optical Processes

The non-optical processes utilise some form of light source, a means of holding the original document and a sensitised copy paper in close contact while the print is made, and facilities for processing the exposed print. In modern equipment the final processing of the print is usually fully automatic and combined with the print-making equipment, so that the operator merely feeds in the original with the copy paper, and the finished print ready for immediate use is received back from the copying machine. Within this category there is a particularly wide range of machines offered. But although this may complicate the choice of the equipment, it does allow the purchaser with an accurate assessment of his requirements to choose the exact equipment to suit those requirements.

Choice of Equipment

It has already been suggested that care must be taken in selecting equipment. It might be supposed that "cost per copy" would be the logical method of making the choice. Copy costs will indeed have a bearing on the final selection of equipment, though this is not the only matter requiring consideration. The following matters should also be fully investigated before selecting the machine or machines to be installed:

- (i) The main application is of course known, but are any further applications possible? If so, are the requirements of the equipment similar to those of the main application?
- (ii) Will it be advantageous to have one installation capable of handling both the main and subsidiary applications, or are the requirements so different that two installations must be considered?
- (iii) If several applications are to be considered, or the one application covers several depots, etc., can the copying installation be centralised without creating document transmission difficulties?
- (iv) Are the envisaged applications handling documents from external sources

where design, size, etc., cannot be controlled? If so, are such original documents liable to be single or double sided, translucent or opaque, printed or handwritten, etc.?

(v) If internal data only is being handled, can the master or the original be made at the initial data preparation stage?

(vi) How many copies of each document will be required at any one time, or at any subsequent time, and are extraneous additional copies likely to be requested?

(vii) What speed of output will be necessary to handle the load at peak periods?

(viii) What maximum size of document will be handled?

(ix) Is the data on the original document complete in itself, or will it be subject to amendment, addition of further information, substitution or deletion of data?

(x) Are all copies to be similar, or will some only be extracts of certain information from the original or master?

(xi) What is the cost of preparing the envisaged copies by utilisation of present methods employed, or of any alternative system that could be put into operation?

The above may at first sight appear to be unduly detailed, especially if photocopying equipment has only previously been considered for copying existing documents. But if integration of documentation is to be considered, it will be readily appreciated that the above factors can each have a significant effect on the choice of equipment. Only by a careful and detailed planning of the system, and by a consideration of all the processes and equipment available, can a fully satisfactory result be achieved.

Possible Applications

The following is a brief description of two installations that have been made in order to integrate data processing.

The first case dealt with handling the sales documentation for a concern producing a wide range of light engineering products from which sales were made to a very large number of customers, the majority of whom only ordered goods at infrequent intervals.

Under the original system of handling customer orders and preparing the sales documentation, three sets of documents were prepared in the course of handling an order, each set being the result of a typing operation using continuous stationery.

Upon receipt of an order a six-part set was typed so that copies could be distributed as follows: (i) to the accounts office, (ii) to the customer, as acknowledgment of the order, (iii) to the despatch department, (iv) to the finished goods store, (v) to the representative concerned, and (vi) was held as a spare copy in case of any special requirement.

When goods covered by the order were ready for despatch a further set of documents was typed for the following purposes: (i) two copies to the customer, one forwarded by post as advice of despatch and the second sent with the goods; (ii) a copy filed in the despatch department; (iii) a further copy forwarded to the accounts office, to initiate preparation of the invoice.

The accounts office thereupon prepared the invoice as a further set of documents, distributed as follows: (i) one copy to the customer; (ii) one copy for accounts office use; (iii) one copy to the representative concerned.

It will be readily appreciated that much of the information typed on these three sets of forms, thirteen documents in all, is contained on the original set, and retyped on the subsequent sets, and it was therefore considered that photocopying techniques might eliminate much of this transcription work, and also the errors that arose in the manual copying routine.

Under the new routine, the customer's order is used to prepare a photocopying "master" showing the full details of the customer and the order received. Three copies are then prepared and distributed as follows: (i) acknowledgment to customer; (ii) a copy to the representative; (iii) a copy to the despatch department.

The master copy passes to the finished goods store, and when the goods have been prepared for despatch, three further copies are prepared for distribution, after despatch details have been typed on the master: (i) by post to the customer; (ii) to the customer, with the goods concerned; (iii) one copy filed in the despatch office, for settlement of delivery queries, etc.

The master is then passed to the accounts office who type on to the master the prices, extensions, discounts, etc., to complete the invoice data, and two copies are then prepared for use as (i) invoice to the customer, and (ii) copy invoice for use in the accounts office.

If partial deliveries are made, a further master is made by photocopying the customer and order details from the original master, but extracting only the outstanding items ordered, and this new master then follows the procedure outlined above. After invoices have been prepared and despatched the master copies are filed in the sales office, who thus have readily available a record of each order received and the handling of that order.

It will be seen that the copying of much of the detail has been eliminated from the routine, and also the number



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of documents reduced with the consequent saving of cost, and it is estimated that the clerical cost of handling an order by the new techniques is only approximately half the original handling cost.

The second case demonstrating another possible use of photocopying equipment to produce sets of integrated documents is the routine established for handling production control documentation in an engineering works operating on batch production methods.

Before the introduction of photocopying equipment, sets of documents were prepared manually for each production batch by transcription from a master operation layout sheet. Such sets comprised for each manufacturing operation: (a) materials requisition note; (b) piecework payment ticket; (c) movement ticket, which also served for progress control recording; (d) material identification label. In addition, a route card was also prepared which accompanied the batch through all stages of production, and also a cost summary card for use in the accounts office showing the data relevant to the costing of the batch produced.

Under the revised routines the opera-

tion layout sheet is maintained, and filed, as a photocopying "master", and one copy from this is prepared as a permanent record for reference purposes in the planning office. When any batch is planned for production, a "variable master" is prepared recording the details concerning the batch, and which, when "married-up" with the planning master extracted from the file, will give all the production details required to produce the full batch documentation as follows:

- (a) Batch cost sheet, containing the data relevant to costing the batch, which is forwarded to the accounts office.
- (b) Route card, which accompanies the batch at all times through the works.
- (c) Material requisition notes, one for each operation to be performed, detailing the materials required for that operation.
- (d) Material identification labels, which are copies of the requisition notes and used to identify the materials when drawn from stores.
- (e) Piecework payment certificates for each operation, which, after certification of quantity passed by inspectors, are used in the calculation of earnings.
- (f) Machine loading tickets for each operation, which are used in the production control office for the forward allocation of machine time requirements and the control of machine capacity.

(g) Movement tickets, which, when received by the next operation department, are used by the progress office for production progress records.

By utilisation of the ability to extract certain items only from the master and variable master copies, all the above documents can be prepared by photocopying equipment very rapidly and without the need for highly skilled operatives, while ensuring that absolute accuracy of transcription is achieved.

By the adoption of the new techniques, the same staff in the production control office are now handling a considerably increased volume of production, and have been enabled to operate full machine loading routines which were not used previously. It has also been found that the flow of production through the works now proceeds much more smoothly owing to the increased accuracy of the documentation, the operation of the machine loading routines and the greatly increased efficiency of the production control and progress recording. While it is not possible to quantify the financial benefits obtained, they are considered to be substantial and to fully justify the decision taken to install the photocopying equipment.

Publications

The Philosophy of Auditing. By R. K. Mautz, PH.D., C.P.A., and Hussein A. Sharaf, PH.D. Pp. ix+248. (*American Accounting Association, University of Wisconsin: no price stated.*)

AUDITING IS THOUGHT of as a completely practical subject, with little need for or possibility of any underlying theory—a subject which is perhaps declining in relative importance as other branches of accountancy develop. The purpose of this book is to suggest, firstly, that the only sure solution to many practical problems is through the development of theory and, secondly, that auditing stands at the threshold of service opportunities as yet scarcely foreseen.

The theme of the authors can perhaps be illustrated by considering the responsibility of auditors for defalcations. Perhaps the most comforting statement ever issued by the American Institute of

Certified Public Accountants suggested that "the ordinary examination incident to the issuance of an opinion respecting financial statements is not designed and cannot be relied upon to disclose defalcations or other similar irregularities... the auditor relies upon the integrity of the client's organisation unless circumstances are such as to arouse his suspicion." That helpful statement has been eliminated in the latest Codification, because there are some irregularities which an alert auditor should discover and some for which he could not accept responsibility under almost any conditions. Where is the dividing line? Is it, for example, one of the postulates of auditing that the effects of extensive and crafty collusion are beyond the scope of a normal audit? What are the other postulates on which audit programmes are, in fact, based? What are the logical rules about the evidence which an auditor should or should not accept? How far must tests and samples go: to what extent are the rules of scientific method applicable to audits? It is in considering questions such as these that the authors make a

strong case for the consideration of auditing principles and for the creation of a greater curiosity about those basic principles.

In terms of the U.S.A. accountancy profession, the authors are concerned about the status of independence as one of the cornerstones in any structure of any auditing theory. "The substantial number of mergers in the decade of the 'fifties reduced significantly the number of medium-sized firms as one after another was merged into larger firms. It can hardly be denied that a substantial concentration of practice has taken place and that if the present trend continues, except for a few rare exceptions, medium-sized firms will disappear and the profession will consist of a small number of very large firms and a large number of very small firms with little in between these extremes." "There are forces at work within the profession presenting some challenges to the image of profession-independence we would like to see impressed upon others. Public accounting appears to be intimately associated with business and to have certain business-like characteristics in

its own structure and operation. There is little about public accounting that would encourage the uninformed person, whether he be a member of another profession or engaged in non-professional activities, to see auditors as possessing the ultimate in independence." It is in this context that the authors consider the compatibility of auditing and management services—management services which, in the U.S.A., are occasionally associated with a "regular sales programme" by practising accountants. "It would be an error for anyone to assert that the entire area of management services should be barred to independent public accountants. At the same time, there is a grave danger in the wholesale and uncontrolled entry of public accountants into this field. Not only may the profession suffer from a loss of identity as its members begin to compete with the various types of management service firms already in the field, but this continued close association with management inevitably raises questions of independence." From this dilemma the authors see a solution developing on the lines of new types of specialisation, so that, for example, auditing staff is completely separated from management accounting staff.

The special relevance of this interesting book perhaps lies in the problem which of these views is fundamentally true:

(1) Accountancy is a practical craft based on experience and related to practical needs. Principles can be determined only as a result of practical experience, and undue concern with economic theories would adversely affect the certainty and reliability of our tried methods, which are gradually developing as a result of practical experience.

(2) Accountancy is a subject which can be studied scientifically in conjunction with related subjects. Our practical work can be sound and progressive only if there is an interest in research and fundamental principles.

It will perhaps be increasingly realised that these two views are not mutually incompatible. If it can be shown, as perhaps this book does show, that auditing—one of our most practical techniques—should be based not only on practice but also on theory, it is probable that there is a strong case for the study of the theory of all our accounting techniques. This view is not generally accepted yet, but, as Erasmus noted long ago, "by identifying the new learning with heresy, you make orthodoxy synonymous with ignorance."

B.N.

The Finance of Small and Medium-Sized Businesses. Prepared by the Research Services of C.D. International (U.K. Research Office) Ltd., London, and C.D. Planning Institute Ltd., Winnipeg, Canada. Pp. 121. (In Great Britain, *Industrial and Commercial Finance Corporation Ltd.*, 24 Chancery Lane, London, W.C.2; in Canada, *Industrial Development Bank*: no price stated.)

THIS IS AN independent study of the Industrial and Commercial Finance Corporation, set up by the Labour Government in the early post-war period as a private enterprise effort and financed by the banks, to help to close the Macmillan Gap, and of the Industrial Development Bank established by a free enterprise Canadian Government as a publicly controlled and owned institution whose resources were to be supplied entirely by the Bank of Canada. The study may be regarded here as a curtain-raiser to the full history of I.C.F.C. promised for early next year, and in Canada as a useful preliminary to the labours of the Royal Commission on Finance which is shortly to begin operations there.

The task laid upon the two institutions was similar, but no doubt there were great differences in detail due to the different stages of development in the Dominion and the United Kingdom and the different background of Government action. The comparison shows that I.D.B. has progressed more rapidly than I.C.F.C. in the amount of credit provided, but that its operations have been less profitable; whereas I.C.F.C. makes profits on the most exacting basis of assessment, I.D.B. might be in the red if it paid commercial rates for its finance. I.D.B. has relied much more on loans and less on participations. Both bodies have rendered valuable services, but neither has, so far, succeeded in filling the gap completely for the small and developing business.

F.W.F.

Concepts of Depreciation. By Louis Goldberg, B.A., M.COM., F.A.S.A., F.C.A.A. Pp. iv + 130. (*Law Book Company of Australasia*: European agents—*Sweet and Maxwell*: 30s.)

AS NEW IDEAS evolve and old ones are refined, the terminology of most developing subjects expands to meet the new demands upon it. Accounting terminology, however, seems to have got stuck in a rut in which a few words, like "cost", "profit" and "value", have to bear an increasing variety of meanings. In this book, the Professor of Accounting at the University of Melbourne

seeks to analyse the various concepts or notions which may be conveyed by the word "depreciation."

Four concepts of depreciation are identified: (1) fall in price, (2) physical deterioration, (3) fall in value and (4) allocation of cost. The last of these is the normal accounting concept for measuring period income. In a section on capital erosion, the validity of a possible fifth concept—that of providing funds for replacement—is rejected. The concept of economic depreciation, which will become increasingly important to management as the electronic revolution gathers pace in offices and factories, is hardly mentioned. On the other hand, both the treatment of depreciation in the published annual reports of Australian companies and the distinction between depreciation and debt redemption in government accounting are discussed at some length.

Of the five "chapters" in the book, four have already been published as articles in accounting journals. This is doubtless why the book lacks cohesion and some of the points at issue are not always held in sharp focus. Nevertheless, the hope expressed in the preface that the papers may stimulate interest and thought should be fulfilled.

P.H.

Solo Fiddle. By Matthew Finch. Pp. 191. (*Dennis Dobson*: 13s. 6d.)

WHAT A PLEASANT change to be amused by a subject as serious as evading or avoiding tax! Taxation does not usually lend itself to a witty style, but the author has the gift of whipping up his mixture to the lightness of a soufflé.

Cecil Firkin, head of the Wages Department in a city business, is incensed by the seeming inequities of assessment and collection of tax under Schedule D compared with Pay As You Earn and he tries every manoeuvre possible to get even with the Chancellor of the Exchequer. His early halting footsteps through the fiscal maze of the Income Tax Acts become progressively neater and more confident as his plan to outwit the revenue gathers momentum. The reader will follow his progress with mounting excitement, a rare emotion in the atmosphere of the taxing statutes.

The hero will gain sympathy from his readers, not because of the things he does, but because the weaknesses which drive him to his actions are so very human. Although many of Cecil's schemes are technically sound there is no clear dividing line in the book

between legal avoidance and fraudulent evasion, and so it behoves anyone reading the book with malicious intent to consult his accountant, who, in the book, provides a wisely restraining influence.

The style is not quite racy, but fast enough to ensure that the book only takes a couple of evenings to read. That, in itself, is a recommendation, for so many books on fiscal matters are ponderous and slow. This is neither and a delight to read.

Mr. Finch's technical advisers are obviously first class, but one feels that they must have had some experience in the back duty field for him to be able to say that all his monetary adventures are based on fact. Any attempt to criticise or justify the *modus operandi* will be out of place, since the author sets out only to entertain, which he does most successfully. This is just the book for a quiet chuckle on a winter's evening.

P.A.S.

Spicer and Pegler's Income Tax and Profits Tax, twenty-fourth edition. By H. A. R. J. Wilson, F.C.A. (*H.F.L. Publishers*): 30s.)

IN WELCOMING THE twenty-fourth edition of this well-known and standard work, it is difficult to find new words. More than ever, this is a marvel of condensation. Within 619 pages of text, 64 pages of appendices and index, and 43 pages of tables (including case and statute law references), the whole field of income tax and profits tax is surveyed. No great detail can be expected, of course, on the more esoteric topics, such as dividend-stripping and the anti-avoidance provisions of the 1960 Finance Act. Mr. Wilson is quite right, however, in maintaining, in his preface, that a great weight of recent law is of little concern to the majority of practitioners. They, and students generally, want to know briefly what such provisions cover, so that more detailed guidance can be sought if the need arises in practice. The more fundamental and common problems receive detailed and practical treatment—capital allowances, bases of assessment, losses, double taxation relief, and surtax on companies among them. With the single-tier profits tax it is possible here also now to give an adequate general summary. As a student's manual, and day-to-day reference book for the practitioner, the new edition will continue the good work of its predecessors.

J.S.H.

A Theory of Accounting to Investors. By George J. Staibus. Pp. xii+149. (*California University Press; Cambridge University Press* act as agents: 32s.)

THIS IS A concise little book which re-examines the fundamentals of accounting theory from an unusual angle, the viewpoint of the investor, and of his adviser, the investment analyst. The restatement of many accounting tenets as the author develops his theory is effected in a vigorous and constructive style.

The point is well made that accounting principles are largely concerned with accounting to investors, although this fact is not generally acknowledged. The conclusion is reached that a major objective of accounting is to provide quantitative economic information that will be useful in making investment decisions. The theory works up to the presentation of some new forms of financial statements and new ratios for predicting cash flows to the firm and through the firm to the investor. The content and tabulation of the forms are designed to indicate the quantity and timing of the future cash flow, and the priorities involved.

This is a theory of short term security. The investor surely seeks evidence of growth. Investment cannot depend alone upon analysis of accounts, however skilfully such analysis is effected. To this extent the contribution of Mr. Staibus must be seen to fit into the pattern of the wider appraisal of the prospects of any individual firm, industry or economy for the anticipated period of the investment.

R.O.A.K.

Automatic Data Processing Systems, Principles and Procedures. By Robert H. Gregory and Richard L. Van Horn. Pp. xii+705. (*Chatto & Windus*: 55s.)

HERE AT LAST is a truly excellent book on ADP. It is pleasingly written, begins at the beginning and really gets to grips with the subject.

The authors start, sensibly if not conventionally, by asking why we gather, store, process and report data about business events at all. Having demonstrated that the process is necessary, they survey briefly the ways in which data are originated. By page 16 one reaches a comparison between punched card and data-processing equipment, soon followed by block diagrams showing the steps involved in typical simple procedures. The description of data processing by machine starts from punched cards, and goes on

to punched paper tape and magnetic tape, the binary, octal and binary coded decimal notations, alphanumeric systems, parity-bits and so on. After that comes basic computer programming, a description of input-output equipment including the various types of character-recognition devices, the transmission of data over telegraph and telephone circuits, and the selection of the most efficient input-output system for particular businesses.

At this point we are taken to the very heart of an automatic data processor, to consider the arithmetic and the control units and their accuracy. There are further examinations of programming and processing procedures, including automatic programming; the cost and value of information; systems analysis and design; systems economics; the tools used by systems analysts, such as flow charts and data sheets; and the actual problems involved in setting up or changing a data processing installation.

Throughout, there are useful references to other authorities for those wishing to know more about particular aspects of the subject. Appendix 1 supplies a useful history of machine aids, while Appendix 2 poses some 400 problems suited to the needs of students and practitioners alike. Appendix 3 is a most helpful glossary of automatic data processing terminology.

G.A.H.

Bid for Power. By George Bull and Anthony Vice. Third edition. Pp. 299. (*Elek Books*: 35s.)

THE FIRST EDITION of this book was warmly welcomed three years ago when its subject matter—the takeover bid—was still a matter of considerable controversy. Opinion is much less divided now: company mergers, however described, are considered respectable, provided that the generally accepted rules are observed. This new edition brings the story almost up to date and describes some of the most controversial of all takeovers, including British Aluminium, Watney Mann and Harrods, as well as adding a chapter on the "Jasper affair." It also gives an account of the rules for takeovers laid down by the committee of City institutions. Altogether this is an interesting and very readable summary of a development which, in view of war and post-war government interventions in a free market, was and remains an inevitable piece of adjustment.

F.W.F.

The Directory of Opportunities for Graduates, 1962. Pp. 368. (Cornmarket Press, 86 Edgware Road, London, W.2: 8s. 6d.)

SINCE 21,500 COPIES of this directory are distributed free to all final year students in the universities of the United Kingdom, they are left with little excuse for ignorance about the opportunities open to them in industry, commerce and government. The notes provided by more than 400 companies and five professional associations are clear, informative, and well arranged and indexed. The signed introductory articles on such matters as working in London and jobs for graduates in television tend to be rather chatty, and this, since the young graduate in search of a job usually does not need to have his appetite whetted, is probably a mistake. There is no time at which a young man is more likely to be content with straight information, and this, introductions apart, is what he gets in this book.

Books Received

Agenda for a Free Society. Essays on Hayek's *The Constitution of Liberty*. By H. B. Acton, Frederick Benham, Michael P. Fogarty, Graham Hutton, John A. Lincoln, E. Victor Morgan, E. F. Nash, A. A. Shenfield, Sir Henry Slessor, J. W. N. Watkins. Edited by Arthur Seldon. Pp. 192. (Hutchinson for the Institute of Economic Affairs: 25s.)

Resources for the Third Five Year Plan. A Research Study and Analysis. Pp. 148. (The Indian Merchants' Chamber Economic Research and Training Foundation, Bombay—Sir Purshotamdas Thakurdas Research Wing: Rs. 7.)

Inflation in a Developing Economy. Pp. 121. (The Indian Merchants' Chamber Economic Research and Training Foundation, Bombay—Sir Purshotamdas Thakurdas Research Wing: Rs. 6.)

A Prosperous Press. By Iain Colquhoun. Pp. 48. (Barrie and Rockliff for Institute of Economic Affairs: 5s.)

The Tax Man Cometh. By J. R. Brummell. Pp. 152. (One World Books, 127 Staplers Road, Newport, Isle of Wight: 15s.)

Dairy Herd Grazing Check Sheet. A Measure of Grazing Utilisation in the Dairy Herd. Pp. 11. (Farm Economics Branch, School of Agriculture, Cambridge University: 1s. post free.)

Fieldhouse's Income Tax Simplified. Twenty-eighth edition, 1961/62. By H. E. D. Ayling, A.A.C.C.A., A.S.C.T. Pp. 79. (Arthur Fieldhouse Ltd., Premier Works, Paddock Head, Huddersfield: 4s. 6d.)

Legal Notes

Contract and Tort—

Limitation of an Action by Sufferers from Pneumoconiosis

In *Cartledge and Others v. E. Jopling & Sons Ltd.* [1961] 3 W.L.R. 838, some nine workmen, who over many years in employment as steel dressers had contracted pneumoconiosis, were suing their employer for damages in tort. Pneumoconiosis is a disease of the lungs, and is caused by the inhalation of minute particles of silica and other dust over a period of many years. For the purposes of this action there are three stages in the progress of pneumoconiosis. At first a workman inhales the dust for a number of years without any damage being apparent on medical examination and without suffering any ill effects. Secondly there comes a time when an X-ray will show the beginnings of the disease, but the workman still suffers no ill effects. Lastly the opening ravages of the disease become apparent to the sufferer himself, with symptoms such as shortness of breath.

The period over which the plaintiffs' claims lay was the years up to 1950, for in August, 1950, the defendants provided masks which were capable of filtering the dust without inhibiting the work of steel dressing, and persuaded the workmen to wear them. On October 1, 1956, the plaintiffs issued their writ. By their defence the defendants pleaded the Limitation Act, 1939, which provided that actions founded on tort should not be brought after the expiration of six years from the date on which the cause of action accrued. (This period is now three years in the case of actions for personal injuries.)

The judge in the Court of first instance found that the disease was due to the defendants' breach of statutory duty, but that they were protected from liability by the Limitation Act, 1939. The Court of Appeal, having agreed that the defendants were in breach of duty, considered the difficult question of when the plaintiffs' cause of action accrued. It was accepted that no cause of action could accrue until injury was inflicted on each of the men concerned. Thus the first of the three stages set out above was disposed of, and the question turned on whether the cause of action arose in stage two, when the victim had been injured but as yet showed no

symptoms, or only in stage three, when the symptoms told the sufferer of his injury. The vital factor was that in the case of each plaintiff it would have been possible to tell from an X-ray taken in 1950—just over six years before the issue of their writ—that they were suffering from the disease, notwithstanding that they felt no symptoms. In other words, they were in stage two at that date. The Court held that their cause of action accrued at that stage, even though they could not tell that they were diseased. Consequently they were time-barred, for they could have sued for more than six years before they actually did issue their writ, and the defendants succeeded.

Executorship Law and Trusts

Difference between "Male Issue" and "Male Descendants"

The case of *In re Du Cros' Settlement Trusts* [1961] 1 W.L.R. 1252 was one where the judge had to consider the question whether the two phrases "male issue" and "male descendants" used in different parts of a settlement meant the same thing, and, if so, what that meaning was.

Dealing first with the words "male issue", Pennycuik, J., held first that *prima facie* the word "issue" is not restricted to children of the person concerned, but, unless the context otherwise requires, extends to as many generations as have come into being. There was nothing in the instrument before him requiring any restriction among generations—if anything, rather the contrary. Next, the judge held that no distinction could be made between the terms "male issue" and "issue male", which last is a legal term of art which has previously been construed, more than once, and over a period exceeding a hundred years, as meaning male persons claiming exclusively through males. Naturally this *prima facie* meaning will be overruled by a context in which a settlor or testator shows that he intends to use the words in a different sense, but no such context appeared in the settlement under construction and accordingly the *prima facie* meaning prevailed.

The question of the meaning of "male descendants" was a more vexed one. The judge first said that his own view, apart from authority, would be that "male descendants" would include males claiming through females, such as the son of a daughter, because the words have this everyday meaning and are not a legal term of art. He then looked at the authorities, and it appeared that, though there is some

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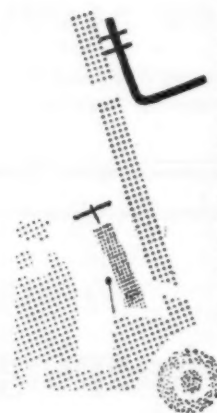
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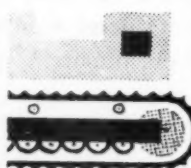


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**BRANCHES IN MAJOR CITIES AND TOWNS THROUGHOUT
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authority that "male descendants" means the same as "issue male", it seems to be based wrongly on an earlier authority which in fact says the opposite.

Pennycuik, J., did not attempt to resolve the authorities, but held that, if it should be that the *prima facie* meaning of "male descendants" was only males claiming through males, then that *prima facie* meaning would be overruled by any indication to the contrary. He found such an indication to the contrary in the instrument before him, because the different expressions "male

issue" and "male descendants" were used in different parts of the instrument, and therefore presumably in contrast. Therefore he held that "male descendants" in this document included both males claiming exclusively through males and those claiming through females.

It should be remembered, however, that no rules of construction prevent a settlor or testator from "making his own dictionary", that is, attributing his own meaning clearly and expressly to words, and using them in that meaning.

An Accountant's Guide to Recent Law

STATUTORY INSTRUMENTS

No. 1822 (C.16). Public Authorities (Allowances) Act, 1961 (Commencement) Order. Amending provisions as to travelling and subsistence allowances of members of hospital authorities and Executive Councils.

No. 1823. Building Societies (Authorised Investments) (Amendment) Order. Permitting investment with certain authorities similar to local authorities.

No. 1832. Foreign Compensation (Roumania) Order. Providing for determination and payment of claims.

No. 1833. Family Allowances, National Insurance and Industrial Injuries (European Interim Agreement) Amendment Order.

No. 1834. National Insurance (European Interim Agreement) Amendment Order. Nos. 1833 and 1834 add the Government of Greece to the names of governments ratifying the agreement.

No. 1849. Road Vehicles Lighting (Amendment) Regulations. Amending the regulations of 1959.

No. 1867. Charities (Registration) (Commencement No. 2) Order. Appointing December 22, 1961, as date of registration in respect of the counties set out in the schedule.

No. 1894. County Court Fees (Amendment No. 2) Order. Introducing general fees on taxation of costs and recovery of money in place of special fees for particular tribunals.

No. 1955. Treasury (Loans to persons other than local authorities) (Interest) (No. 3) Minute. Reducing rate of interest.

DECISIONS OF THE COURTS

Charity

Trust for national home for trade union members held not charitable but validated by the Charitable Trusts (Validation) Act, 1954.

In re Mead's Trust Deed (1 W.L.R. 1244).

Gift not validated by Act of 1954. Gift did not declare objects to which the fund when paid over to suitably qualified institutions was to be applied, and a gift to institutions whose objects would not necessarily be exclusively

charitable was not an "imperfect trust provision" as defined.

In re Harpur's Will Trusts. (3 W.L.R. 924.)

Company

Defendant company wrongly described in writ as a firm. Amendment allowed outside limitation period, as this was a mere misnomer and nobody was misled.

Whittam v. W. J. Daniel & Co. Ltd. (105 S.J. 886.)

Contract

Agreement between an engaged couple as to finance after marriage. Whether presumption of undue influence.

Zamet v. Hyman. (105 S.J. 911.)

Disciplinary Powers of Professional Body

Refusal of injunction to restrain Institute from hearing or determining question under a clause of its charter.

Lloyd v. Institute of Chartered Accountants in England and Wales. (T.N. October 12.) See ACCOUNTANCY, October, page 595.

Factory

Defendants not liable for injury to window cleaner who was cleaning a swinging window some feet above ground. Ladder in sound condition provided, but no hooks or bars on which a safety belt could have been used if the cleaner wanted to do so.

Wigley v. British Vinegars Ltd. (1 W.L.R. 1261.)

Husband and Wife

English decree of divorce of a marriage in Ireland held valid in absence of clear words in statute of Republic showing intention to depart from long-established principle that a decree pronounced by the courts of the domicile was to be recognised as valid.

Breen v. Breen. (3 W.L.R. 900.)

Insurance

U.D.C. not acting *ultra vires* in effecting insurance of personal and household goods of tenants and collecting premiums.

Attorney-General v. Crayford U.D.C. (T.N. October 19.)

Negligence

No legal duty on employer to refuse to employ adult on work he was willing to do because there was some risk to employee of further dermatitis.

Withers v. Perry Chain Co. Ltd. (1 W.L.R. 1314.)

Solicitor not negligent in buying annuity for client on instructions where death of client occurred shortly after purchase. Solicitor owed no duty to administrator of her estate.

Dunn v. Fairs, Blissard Barnes & Stowe. (T.N. October 27.)

No duty of care on bankers in giving references, in the absence of a contractual, fiduciary or other special relationship.

Hedley Byrne & Co. Ltd. v. Heller & Partners Ltd. (T.N. October 19.)

Defective endorsement of writ, which omitted "for negligence", could not be remedied by amendment outside limitation period.

Pontin v. Wood. (105 S.J. 912.)

Not reasonably foreseeable that workman would crack pipe with sledgehammer instead of sawing with hacksaw as instructed.

Langan v. W. & C. French Ltd. (105 S.J. 912.)

Road Traffic

Motorist who parked his car outside his own house in Upper Brook Street while he went into house for five minutes held guilty of offence.

Clifford-Turner v. Waterman. (T.N. October 25.)

Settlement

Construction of "male issue" and "male descendants" in a settlement.

In re Du Cros' Settlement Trusts (1 W.L.R. 1252.) See page 696.

Shipping

Bill of lading was *prima facie* though not conclusive evidence of receipt of goods.

Attorney-General of Ceylon v. Scindia Steam Navigation Co. Ltd., India. (3 W.L.R. 936.)

Trust

Application under Variation of Trusts Act, 1958, to extend trustees' powers of investment refused in light of Act of 1961.

In re Porritt's Will Trusts. (T.N. October 26.) Since Trustee Investments Act, 1961, court would have to be satisfied wherever relaxation of powers of investment were sought that there were special grounds which made it right that the trustees should have wider powers than indicated in the new Act.

In re Cooper's Settlement (105 S.J. 887.)

Will

Whether an investment was a "blue chip" depended on the standards applied by the speaker. It could not be regarded as an objective quality of the investment.

In re Kolb's Will Trusts. (105 S.J. 888.)

ARTICLES

Law Times

Vol. 232, page

Operation of the Wills Act, 1861 .. 199

Form of Affidavits .. 228

Solicitors' Journal

Vol. 105, page

Crossed Cheques and Certified Cheques

—Differences in law and practice

between U.K. and Canada .. 877

Service by Recorded Delivery Post .. 874

The Hirer's Dilemma—Minimum pay-

ment clauses in H.P. agreements .. 904

ABBREVIATIONS USED

All E.R.—The All England Law Reports.

S.J.—Solicitors' Journal.

T.N.—The Times Newspaper.

W.L.R.—The Weekly Law Reports.

Note: Taxation cases and articles excluded.

Letters to the Editor

Recent Tax Cases

Sir,—Having just caught up with my reading of the August and September, 1961, copies of *ACCOUNTANCY*, may I commend the new layout of the "Recent Tax Cases." It does make it easier to pick out the relevant points and to find out which cases are likely to be of interest to us.

Thank you.

Yours respectfully,

A. FIELDING, A.C.A.

Manchester.

Stock-in-Trade and Work in Progress

Sir,—Recommendation 22 and Mr. Sydenham's valuable paper "Some considerations in relation to the accounting treatment of Stock-in-Trade and Work in Progress", (published in *ACCOUNTANCY*, September, 1961, pages 547-557) may have important consequences for the accountancy profession and, indirectly, for the country's economy.

Six years ago, at Oxford, Mr. E. H. Davison said: "The profit and loss account is intrinsically a calculation, made in conventional terms, in order to arrive at the figure which can be described as the 'profit' or 'loss' for the period. It is a case in which, if the calculation is to have any serious meaning, the definition of the answer is of overwhelming importance." He continued, "... if we cannot immediately agree on the intrinsic meaning of the word 'profit' there is at least time to suggest that agreement should be sought so that the expression can be uniformly defined in simple and useful terms."¹

Is it not incredible, Sir, that a profession whose members express opinions on whether accounts show a true and fair view of profit (or loss) should still lack any definition of those crucial words?

One reason may be that the fundamental postulates on which all accounting is based are not generally recognised. Two of them, the Postulate of Permanence (namely, that for all normal accounting purposes the life of an enterprise is deemed to be indefinitely long) and the Postulate of Realisation (namely, that profits or losses emerge when goods possessed or services rendered by an enterprise are replaced by its ownership of, or entitlement to, money) are clearly at the root of profit definition. Another and possibly the main practical reason may be the immense variation in the treatment of stocks and work in progress.

There appears now to be no insuperable objection to the application of the postulates to the practice of treatment of stocks, and

thus in the long run to establish the foundation on which a generally acceptable definition of profit could be built. Several consequences would be found to follow. For example, it would become manifest that for profit and loss account purposes stocks and work in progress should be invariably carried forward at, and only at, a figure representing the extra cost incurred by the enterprise arising directly from their acquisition or production. No deductions from this figure (say, to net realisable value or replacement price) would be permitted, for to do so would offend the Postulate of Permanence; no additions to it would likewise be permitted, for to do so would offend the Postulate of Realisation.

Such a logical approach may astonish those accustomed habitually to accept the methods of stock appraisal now commonly in use. It was and still is considered prudent to value or to compute stocks on a conservative basis, a practice deliberately encouraged by the law (though perhaps not by the Revenue), as witness the obligation expressed in clause 11(7) of the Eighth Schedule to the Companies Act, 1948.

But neither prudence nor the law has anything to do with consistent and accurate profit measurement. Whether or not to be prudent is a matter of choice; the ascertainment of profit is (or should be) a matter of fact. It may well be wise to "provide that a new year suffers no detriment from the operations of its predecessor,"² but wisdom should not be allowed to obscure truth. The trend of operating profits should not be distorted by well-meaning adjustments, even those permitted by Recommendation 22. The only solution is full disclosure of all deductions from the one proper figure, defined earlier, which in all circumstances should be carried forward for stocks and work in progress.

The legal obligation under the Companies Acts has unfortunately reinforced the belief that whatever figure is inserted in the balance sheet for closing stock should be identical with that in the profit and loss account. Automatically to accept this leads to a misunderstanding of the rightful purpose, which even today remains obscure, of a balance sheet.

Again to quote Mr. Davison:

"The words 'balance sheet' patently fail to convey whatever a balance sheet may be intended to represent.

"According to the Companies Acts and to all accounting theory a balance sheet is intended to convey a view of a state of affairs. Obviously, the view can hardly be complete in any but a financial sense, but

even in that sense the words convey very little."

He went on to propound that the balance sheet should primarily be an account of stewardship, and added:

"Stocks would furthermore be shown at cost and it would be incumbent on boards of directors to show the reserve required, if any, against future losses on realisation of stocks; stocks would however be stated at their gross cost value amongst the assets and the reserve shown elsewhere."

For "their gross cost value" should now be substituted "their proper cost" (that is, as previously defined). And there are limitations in creating a reserve "against future losses", which is much the same thing as providing "that a new year suffers no detriment from the operations of its predecessor."

The purpose of the reserve is not to protect the profit figure for the new year; it is to protect the enterprise itself. How that protection can be given by merely transferring some amount from one ledger account to another is difficult to comprehend. The only way it can be given is by conserving resources, by restricting dividends.

The reserve is simply one method by which directors tell shareholders (and they have every right to be told) of the existence of adverse circumstances affecting stocks which make it desirable to limit distribution.

Some criticisms have already been made of the accountancy profession—as for example in the Duple case—for its inability to define and therefore to measure profit. It runs a similar risk by its failure to lay down the meaning and purpose of a balance sheet. As Mr. Davison has pointed out, it should be no more and no less than a statement of stewardship; "a representation of the money coming into the hands of, and the disposal of those moneys by, the directors as quasi-trustees for the shareholders." And the major problem in the preparation of such a statement disappears, given a generally accepted definition of profit.

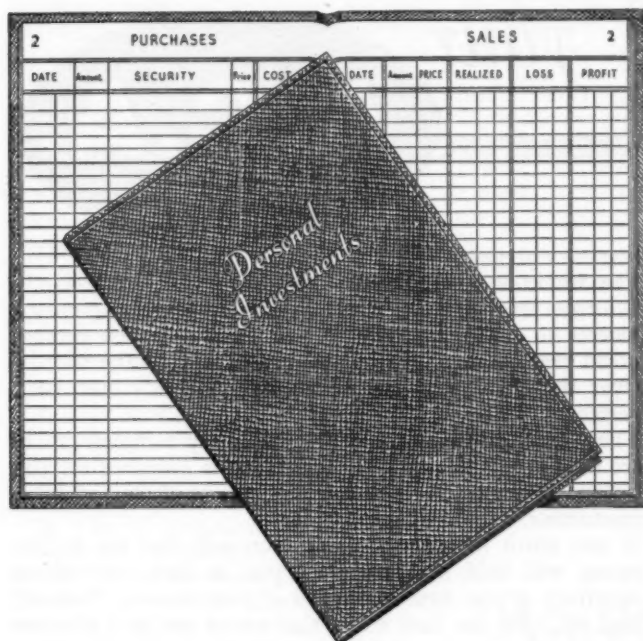
For what is a balance sheet to be if not a statement of stewardship? The only alternative is to permit present misunderstandings to persist. It is true that in this country we have not allowed ourselves to go as far as, for example, North America and Australia: the American layman might think that a balance sheet is a "value" statement from the use of the words "net worth", and his Antipodean counterpart may well believe that his "shareholders' funds" are there in money. So let the English and Welsh Institute jump into the lead and publish (not necessarily under the *imprimatur* of the Council) some definition of profit and a document on the purpose and meaning of a balance sheet. If in their preparation the discovery is made that neither the profit and loss account nor the balance sheet as produced for publication need wholly be in agreement with the

¹ "Financial Enlightenment"—a paper given at the Summer Course on July 8, 1955.

² Mr. Sydenham's paper (*ACCOUNTANCY*, September, page 551).

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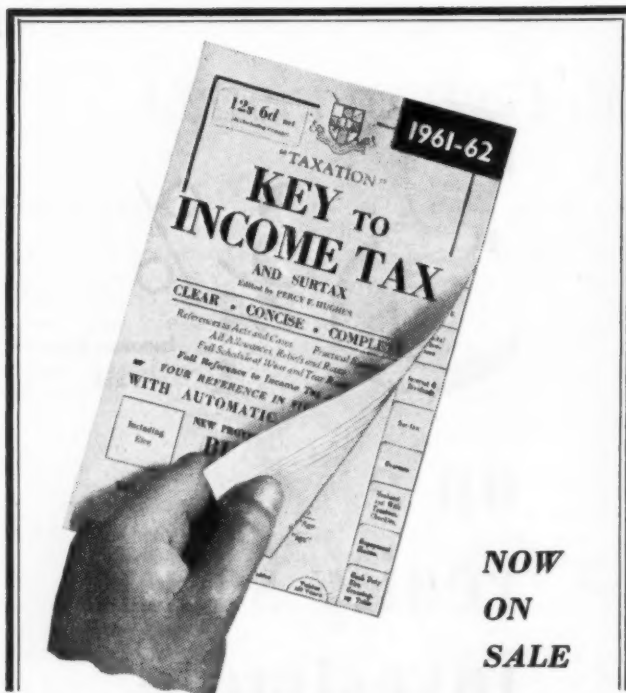
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books of account, let the Institute reflect that the time may be ripe for the accountant to be freed from the bonds of double entry.

Yours faithfully,

W. S. HAYES, F.C.A.

Dartford.

"Thanks, Mr. President"

Sir,—Well, how very nice to read from the pages of ACCOUNTANCY that no less a person than the President of the Institute has publicly declared that methods of assisting "The Small Man" in the accountancy profession are now to be considered.

Far be it from me in any way to detract from the obvious merits of our large and deservedly prosperous colleagues, and in fact I am sure that in their wisdom they themselves are bound to realise that in these competitive days complacency of any sort has to be avoided, and the views and opinions of the Small Man must surely be worthy of some consideration in the ultimate interests of the profession as a whole.

Whether or not I may, in due course, have the honour of receiving a communication from our District President on the matter remains to be seen, but in case that pleasure does not come my way, may I, as a small practitioner of over fifteen years standing, request to express the following views through your columns:

(1) Yes, the proposed amendments to Section 161, Companies Act, 1948, and Section 52 (4), Income Tax Act, 1952, as referred to in your Editorial, and which have also been suggested many times in the past, should surely be pressed for by all available means.

(2) The Institute Public Relations Committee, from which such optimistic results were hoped, but which, anyhow to date, does not appear to have achieved quite the success that it surely deserves, should receive all possible support and promotion.

Excellent work of a similar nature has recently been performed by both the Law Society and also the up and coming Institute of Directors. In order that our profession may also enjoy comparable benefits, would it in fact be too much to hope for the appointment of a full-time Public Relations Officer—preferably one fully acquainted with all the hopes and ambitions of current professional practice?

(3) The District Questionnaire Returns to which you refer would also seem to be a very good idea and capable of very constructive possibilities, provided that the results are published in reasonable time.

I am glad to read that in some of the more dynamic District Societies these findings have already been issued. In our particular district, however, although the Questionnaire Forms were sent to us as long ago as last April (together with instructions that they were to be urgently completed and submitted within fourteen days), at the time of writing (November 7) no results report of any sort has yet been received, and thus it would unfortunately seem that if it is eventually to be issued to us it may tend to be of more historical than current interest.

Hastening to affirm that I would in no way wish to rebel against our professional "Establishment", but rather to develop and extend it.

Yours faithfully,

D. A. J. WARD, F.C.A.

Walton-on-Naze.

CAESS Accounts

Sri,—In the October issue of ACCOUNTANCY you print a copy of the latest accounts of the Chartered Accountants Employees Superannuation Scheme. As we invariably feel that accounts printed in your journal are models for the profession, it is all the more surprising therefore to see therein an amount for irrecoverable income tax.

Surely a new organisation such as this should take steps to avoid having to write off income tax. It may be difficult to avoid a certain amount of dividends with net United Kingdom rates, but an investment in Shell Transport and Trading Co. Ltd., with an extremely low rate or a rate of nil, should surely be eschewed by pension trusts and the like.

I have no doubt that contributions paid into the Scheme represent in many cases

considerable hardship to the individuals concerned, and it must seem to them a pity that a part of these contributions is quite needlessly thrown away.

Strangely enough the same criticism applies to the accounts of such an illustrious body as the Chartered Accountants Benevolent Association.

Yours faithfully,

PHILIP B. PAGET, F.C.A.

Watford.

[Mr. Paget appears to confuse the question of "model" accounts with the question of investment policy. Indeed the fact that the information given in the accounts has enabled him to criticise the investment policy is a tribute to the true and fair view presented by the accounts to which he refers. The making of investments is of course a skilled operation. There are circumstances where the disadvantages of a low or nil net United Kingdom rate of tax are outweighed by capital growth prospects. The recognition of such opportunities (and, no less, a sound assessment of when to sell an investment on which there is little prospect of further capital growth) are part of the art of skilled investment.—Editor, ACCOUNTANCY.]

Readers' Points and Queries

Property of Bankrupt in Eire

Reader's Query.—Can the creditors of an English person resident in the United Kingdom, who becomes bankrupt, proceed against freehold land and property owned by the debtor in Eire to satisfy their claims upon his estate? The property in Eire is used for business purposes and is in the name of the debtor.

Would the same laws apply to a company going into liquidation?

Reply.—Upon the making of an order adjudicating a debtor bankrupt, all property of the bankrupt which is divisible among his creditors and is capable of passing to the trustee in bankruptcy vests in the trustee. Section 167 of the Bankruptcy Act, 1914, defines "property" as including "land, and every description of property, whether real or personal, and whether situate in England or elsewhere." The personal estate of a bankrupt, wherever situate, passes to the assignees, because, by the law of nearly every country, movable property is governed by the law of that country which governs the person of the owner. If the property be real

estate situate outside the United Kingdom, it passes only according to the law of the place where the property is situated. The Courts of the Republic of Ireland, however, recognise an English adjudication as effective to vest in the trustee property in Eire, subject, so far as such property consists of land, to any requirements prescribed by the law of Eire as to the transfer of land (Re Reilly [1942] I.R. 416, overruling opinions to the contrary expressed in Re Corballis [1929] I.R. 266). And where the bankrupt is personally within the jurisdiction of the Courts of the United Kingdom he may be ordered, under Section 22 of the Act of 1914, to execute a valid conveyance of his real property according to the form required by the law of the country where such property is situate.

By Section 317 of the Companies Act, 1948, the bankruptcy rules (with some modifications) apply in the winding up of insolvent English companies. Even a company incorporated in another jurisdiction (for example, that of Eire), whose principal place of business is in another jurisdiction but which has an office and assets

in this country, may be wound up here as an unregistered company (see Part IX of the Companies Act, 1948), and on winding up English rules will be applied in connection with the administration of its assets (Re Suidair International Airways Ltd. [1951] Ch. 165). But there is no jurisdiction in the Courts of Eire to wind up a company registered in England and carrying on business in Eire.

Assessment of Insurance Moneys

Reader's Query.—A new client of ours had a fire in December, 1958, and made a claim under its loss of profits insurance policy. The firm's accounting year ends on March 31. The first instalment of compensation was received in the accounting year ended March 31, 1960, and the previous accountants included the insurance moneys received with the ordinary trading profits for that year, which form the basis of assessment for 1960/61. A further payment has been received in the accounting year ended March 31, 1961, and our query is whether this will be included with the ordinary trading profits which form the basis for 1961/62, or whether the Revenue will contend that it should be related back to the date of the fire. We should be grateful if you would kindly quote us any authorities.

Reply.—Unless there is some clause in the insurance policy providing for the date when the claim is ascertainable, the insurance moneys must be brought into account in the accounting period in which the fire occurred. Reference can be made to *Rownson, Drew and Clydesdale Ltd. v. C.I.R., K.B.D. 1931, 16 T.C. 595*; *Green v. Glisten & Son Ltd., H.L. 1927/29, 14 T.C. 364*; and *Corr v. Larkin (1949) I.R. 399*.

Back Duty—Deceased Partner

Reader's Query.—The following income tax problem has arisen regarding a partnership with which I deal.

There were two partners, A and B. Partner A retired from the firm on December 31, 1953, and subsequently died on July 27, 1961. Partner B continued the business on his own, but ceased trading on June 30, 1958. As a result of subsequent investigation into their affairs, it has been found that there was under-assessment due to wilful default by both partners in the years 1940 to 1949 with regard to the partnership trading transactions.

A protective assessment for 1951/52 was raised on the firm on April 3, 1958,

and protective assessments for subsequent years have been raised annually since. The amount of the under-assessment has not yet been finally agreed.

The Inland Revenue now claims that, despite the provisions of Section 53 of the Finance Act, 1960, regarding tax lost through a deceased person's fault, it can nevertheless make assessment in respect of the joint under-assessments on the firm in the earlier years. It also claims interest under Section 58, Finance Act, 1960, plus penalties under Sections 47 and 48, Finance Act, 1960, on partner B, and interest but not penalties on the under-assessed profit relating to the deceased partner A.

Thus the Inland Revenue is claiming the whole of the tax under-assessed on the partnership plus interest on that tax, but excluding penalties on the deceased partner A. This appears to me somewhat inconsistent. I should be obliged to have your views.

Reply.—In the case of the deceased partner, the assessments made before his death are still open.

Although these assessments were not made under Section 51 of the Finance Act, 1960, they were still made for the purpose of making good to the Crown a loss of tax attributable to the wilful default of the partners, and seem to be caught for interest by Section 58 of that Act. It is important to remember that Section 53 of the Finance Act, 1960, does not affect assessments existing at the date of death.

Allowances for Shop Fittings

Reader's Query.—A client purchased some eight years ago a chemist's shop. Included in the purchase price was a sum of £630 for trade fixtures, fittings, furniture, etc. No separate valuation was given for the very considerable number of items included, but about one-half of them have now been replaced by modern showcases, counters, etc., to the approximate value of £1,000.

We proposed to claim on our client's behalf the following allowances (having received in the past initial and annual allowances on the sum of £630 referred to above):

On the old fittings

Balancing allowance (if we are able to obtain from the valuers the cost price to our client of the items now replaced).

On the new fittings

Investment allowance at 20 per cent.
Initial allowance at 10 per cent.

Annual allowance at 5/4ths of 5 per cent.

Our client has since informed us that he gathered from the shopfitters that the whole cost of the new fittings would be allowed for income tax purposes as a charge against profits. As our client's total income is well into the surtax class, even with the new exemption limit, he is naturally anxious to obtain all the allowances possible. It seems to us, however, that the shopfitters in their remarks have confused the replacement of the fittings with the special case of the replacement of a shop front and have entirely ignored the question of improvement.

Reply.—If capital allowances have been claimed in respect of trade fixtures, fittings and furniture, it will be impossible to claim repairs and renewals basis in respect of those fixtures and fittings. In so far as capital allowances have not been claimed, the repairs and renewals basis could apply, for example, for small items on which it is not worth claiming capital allowances.

The Accountants' Christian Fellowship will hold its monthly meeting for Bible reading and prayer at 1 p.m. on Monday, December 4, in the vestry of St. Mary Woolnoth Church, London, E.C.3. The scripture for reading and thought will be Acts, Chapter 19, verses 1 to 7.

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The present annual subscription rate of £1 10s. no longer covers costs. It has therefore been decided with regret that it will be necessary to raise the rate on January 1, 1962, to £2 2s. (3s. 6d., or 4s. postage paid, for individual copies). Subscriptions commencing before January will continue until expiry without supplementary payment. The concessionary rate to students will be raised to £1 4s.

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The Student's Columns

THE INTERPRETATION OF ACCOUNTS—V

IN PERIODS WHEN rises in price level are marked, there is a tendency for businesses to become under-capitalised. As stocks of materials are sold, either in their existing form or as part of a manufactured product, and as fixed assets wear out and are replaced, substantially greater sums have to be invested in the assets which replace them than were invested in the purchase of those displaced. Inflation also increases the working capital tied up in debtors and other forms of current asset.

In some businesses the effects of a rise in price levels are felt more quickly than in others. Those in which rapid stock turnover is the rule feel the results more quickly, and those whose plant and machinery call for immediate or early replacement feel the effect more rapidly than those for which replacement is a long-term problem. The more distant is the date of replacement, and the more wholesale the replacement, the more closely will the situation have to be watched.

Illustration

The following balance sheets of Surf-Riders Ltd. are presented to you:

Balance Sheet as at March 31, 1939

| | £ | | £ |
|--------------------|----------------|---|----------------|
| Share Capital .. | 35,000 | Freehold Property, at cost (in 1934) .. | 9,000 |
| Trade Creditors .. | 6,000 | Plant and Machinery, at cost (new this day) | 12,000 |
| | | Stock in Trade, at cost | 8,000 |
| | | Debtors .. | 9,000 |
| | | Balance at bank .. | 2,000 |
| | | Profit and Loss account | 1,000 |
| | <u>£41,000</u> | | <u>£41,000</u> |

Balance Sheet as at March 31, 1961

| | £ | | £ |
|---|----------------|---|----------------|
| Share Capital .. | 35,000 | Freehold Property, at cost (in 1934) .. | 9,000 |
| General Reserve .. | 10,000 | Plant and Machinery, at cost (new this day) | 36,000 |
| Profit and Loss account | 6,000 | Stock in Trade, at cost | 16,000 |
| Bank Overdraft (secured on freehold property) | 19,000 | Debtors .. | 15,000 |
| Trade Creditors .. | 6,000 | | |
| | <u>£76,000</u> | | <u>£76,000</u> |

You ascertain that in March, 1961, the old plant and machinery was scrapped and replaced by new plant and machinery of substantially similar quality and capacity, costing £36,000.

The stock-in-trade at March 31, 1961, was five-eighths in volume of the stock at March 31, 1939.

The directors ask you to state whether you consider the position of the company on March 31, 1961, is better or worse than it was twenty-two years earlier, and in what respects.

A critic has suggested that the bank overdraft at March 31, 1961, was not adequately secured. Do you agree?

Solution

It is apparent that in 1939 the company was in the midst of, or just recovering from, a period during which it made losses—otherwise it could not have had a debit balance on its profit and loss account. By 1961 the position had changed considerably, so that there were revenue reserves totalling £16,000. Thus, whilst it would have been imprudent, and in all probability illegal, to pay a dividend in 1939, the company is no longer under any legal restriction and has ample revenue reserves. To this extent it may be said to be better off now than in 1939.

It many ways, however, its position is much worse. Plant and machinery appears in the 1961 balance sheet at its cost of £36,000, but is substantially similar in quality and capacity to that purchased in 1939. In real terms there has been neither gain nor loss; the company has in 1961, as it had in 1939, a brand new set of plant and machinery, and of similar type. The company still owns the freehold property purchased in 1934. In real terms, it is slightly worse off, because the buildings erected on the land will be twenty-two years older. In real terms, the company holds only five-eighths of the stock it held in 1939. Debtors, if we assume that inflation has raised prices to three times their pre-war level, are little over half pre-war, and creditors only one-third of pre-war. It appears probable that the volume of business done has fallen considerably.

It is generally regarded as prudent to set aside to capital reserve such sums as are necessary to finance the eventual replacement of plant. The ploughing-back of depreciation provisions would provide £12,000 (assuming

the plant to have a nil scrap value); so the amount which ought to have been set aside to the capital reserve for the increased cost of replacement of fixed assets was £24,000.

Another effect of inflation is to increase the working capital required to support a particular level of activity. The company's working capital in 1939 was £13,000 (namely, £8,000 + £9,000 + £2,000 - £6,000). If prices are assumed to have risen to three times their pre-war level, the company would need £39,000 in 1961 to carry its pre-war volume of business. Its actual working capital is £6,000 (namely, £16,000 + £15,000 - £19,000 - £6,000), so its total deficiency of capital and reserves is £33,000 (or £39,000 - £6,000).

It is doubtful whether even the present restricted level of activity can be maintained indefinitely. Certainly there is little room for the payment of any dividend.

Turning now to answer the critic who suggested that the bank overdraft is not adequately secured: the only effective test of this would be a professional valuation of the property. On the face of things, however, it seems probable that there is a considerable margin of safety.

Many freehold properties have risen in value to five, six or even ten times their pre-war value.

Shortage of working capital, which makes it impossible to replace fixed assets when the need arises, is easy enough to spot when it is on top of you. It is essential, however, to see the danger long before it arises. Dividends may then be restricted to maintain working capital. Most companies in fact do this, though they look at the position from the other side and talk of "ploughing back profits to reserve." Another way of overcoming the problem is to issue further capital in the form of shares or debentures. This is normally easy when there is no need for it, and most difficult when it is essential to survival.

There is as yet no solution to the problem of accounting for inflation, and it is all too easy for this reason to bury one's head in the sand and forget that any problem exists. Probably the best safeguard is the regular re-reading not only of the Institute's Recommendations but of those of other bodies, including in particular *The Accountancy of Changing Price Levels*, published by the Institute of Cost and Works Accountants.

A CROSSWORD PUZZLE WITH LOSSES

WHERE A BUSINESS has a number of shops, each may be treated as a separate business, or the whole may be treated as one business. Normally, where a company extends its business by opening branches all selling the same type of goods or providing similar services, each new branch will be treated as an extension of the one trade, and when one is closed there is a contraction of the trade. If the shops sell different types of goods, or if each has a substantial business, the Inspector of Taxes may contend that each must be treated as a separate trade. In the opening years, where losses and capital allowances are involved, several computations may be necessary to ensure that the taxpayer obtains the maximum relief.

The following revision of the principles involved may be helpful.

(1) The assessments in the case of a new business for the first three years are based:

for the first year—on the profits for the period from the date of commencement to the following April 5;
for the second year—on the profits for the first twelve months of trading;
for the third year—on the profits shown by a twelve months account ending in the preceding year of assessment.

At the option of the taxpayer, the assessments for the

second year and third year may be adjusted to the actual profits for those years.

(2) Under Section 341, Income Tax Act, 1952, the loss incurred in any trade in any year of assessment may be set off against the total income of the taxpayer for that year, and, if it is not fully relieved, the excess may be carried forward and set off against the total income of the following year.

(3) Any loss incurred in any trade for which relief has not been given under Section 341 may be carried forward and set off against the profits of future years arising from the same trade as that in which the loss was incurred (Section 342, Income Tax Act, 1952).

(4) Capital allowances not relieved against assessable profit of any year may be carried forward against future profits made by the same trade.

(5) Any capital allowances which cannot be used in the assessment of the year, up to the amount of the allowances for the year of assessment, may be added to a loss or may be used to convert a profit into a loss.

(6) A loss incurred in the first year of a business may enter into the computation of the assessments for more than one fiscal year. To the extent that any part of the loss enters into the calculation of an assessment for a year (even if it produces a nil assessment) relief has been allowed and cannot be carried forward (*C.I.R. v. Scott Adamson*, 1932, 17 T.C. 679).

Illustration

A limited company started business with one shop on January 1, 1958. It acquired a second shop on July 1, 1958, and a third on February 1, 1959. Finally it purchased a fourth on September 1, 1959. The results of each are shown below, together with the capital allowances for the various years of assessment. Each shop is to be treated as a separate trade. For the sake of simplicity, where the assessments for the second and third years are adjusted to actual, the figures for capital allowances have not been altered. In practice, the change in the basis periods for the second and third years of assessment usually affects the capital allowances for those years. Accounts are made up to December 31 in each year.

The adjusted results of all accounting periods and the capital allowances based on those periods were:

| | | | | £ | | £ |
|--------------------|----------|--------|-------|--------------------|---------|-----|
| Shop 1 | | | | | | |
| Accounts year to | 31.12.58 | Profit | 840 | Capital allowances | 1957/58 | 50 |
| " " | 31.12.59 | " | 960 | " " | 1958/59 | 90 |
| " " | 31.12.60 | " | 240 | " " | 1959/60 | 170 |
| " " | 31.12.61 | " | 300 | " " | 1960/61 | 140 |
| | | | | " " | 1961/62 | 160 |
| | | | | " " | 1962/63 | 120 |
| Shop 2 | | | | | | |
| Accounts 1.7.58 to | 31.12.58 | Loss | 630 | Capital allowances | 1958/59 | 200 |
| " year to | 31.12.59 | Profit | 360 | " " | 1959/60 | 180 |
| " " | 31.12.60 | Loss | 120 | " " | 1960/61 | 300 |
| " " | 31.12.61 | Profit | 400 | " " | 1961/62 | 180 |
| | | | | " " | 1962/63 | 70 |
| Shop 3 | | | | | | |
| Accounts 1.2.59 to | 31.12.59 | Loss | 110 | Capital allowances | 1958/59 | 20 |
| " year to | 31.12.60 | Profit | 360 | " " | 1959/60 | 70 |
| " " | 31.12.61 | " | 800 | " " | 1960/61 | 80 |
| | | | | " " | 1961/62 | 40 |
| | | | | " " | 1962/63 | 30 |
| Shop 4 | | | | | | |
| Accounts 1.9.59 to | 31.12.59 | Profit | 400 | Capital allowances | 1959/60 | 60 |
| " year to | 31.12.60 | Loss | 1,080 | " " | 1960/61 | 80 |
| " " | 31.12.61 | Profit | 720 | " " | 1961/62 | 60 |
| | | | | " " | 1962/63 | 100 |

Fractions of months have been ignored.

The assessments on the company would be:

| | | £ | £ |
|-----------------------------|---|-----|-----|
| 1957/58 | | | |
| Shop 1 | $\frac{1}{4}$ of £840 = £210, less capital allowances £50 = | | 160 |
| 1958/59 | | | |
| Shop 1 | £840 increased to claim on actual (as it pays where two years are taken) to £870 ($\frac{3}{4}$ of £840 + $\frac{1}{4}$ of £960). Net assessment attributable to Shop 1 £870 - £90 = | 780 | |
| Shop 2 | Assessment based on —£630 + $\frac{1}{4}$ of £360 = —£540 therefore Section 341 claim could be made on £540 Add: Capital allowances unused | 200 | |
| | | 740 | |
| Shop 3 | Assessment based on 2/11ths of £110 loss .. Section 341 claim could be made on 2/11ths of £110 = Add: Capital allowances unused | 20 | 40 |
| | | 40 | |
| Company pays tax on | | | Nil |

| | | £ | £ |
|----------------|--|------------|-----|
| 1959/60 | | | |
| Shop 1 | Assessment (original £840) based on actual, $\frac{1}{4}$ of £960 + $\frac{1}{4}$ of £240 = £780 less capital allowances £170 | | 610 |
| Shop 2 | Assessment based on first twelve months trading £—90 (see below)* + $\frac{6}{12}$ ths of £360 = £90. Alternatively the assessments of the second and third years could be based on actual $\frac{3}{4}$ of £360 — $\frac{1}{4}$ of £120 = Less: Capital allowances | 240 180 | 60 |
| Shop 3 | Assessment based on results of first twelve months of trading. Loss £110 — $\frac{1}{12}$ ths of £360 = | | Nil |
| Shop 4 | Assessment based on actual. £400 — $\frac{1}{4}$ of £1,080 = Less: Capital allowances | 130 60 | 70 |
| | | | 740 |
| | Less: Section 341 claim in respect of Shop 3 Loss (9/11ths of £110 =) 90 — ($\frac{1}{4}$ of £360) 90 = but capital allowances unused | Nil | 70 |
| | Company finally assessed on | | 670 |

*Under Section 341 (5), I.T.A., 1952, where repayment has been made for any year of assessment, that amount cannot be used in computing the assessment of any subsequent year of assessment.

| | | £ | £ |
|-------------------------------------|--|------------|------|
| 1960/61 | | | |
| Shop 1 | Profit £960 less capital allowances £140 | | 820 |
| Shop 2 | Assessment not based on preceding year £360 but on actual profit ($\frac{3}{12}$ ths of £400 =) £100 — ($\frac{9}{12}$ ths of £120 =) £90 Less: Capital allowances | 10 300 | Nil |
| | Capital allowances unused | | £290 |
| Shop 3 | | | |
| | Assessment based on accounts ending in preceding year, assumed based on results of first twelve months (Commissioners of Inland Revenue would have to choose period, as there is no set of accounts ending in preceding year which is of twelve months duration) | | Nil |
| Shop 4 | Based on profits of first twelve months trading Profit £400 — $\frac{8}{12}$ ths of £1,080 = Less: Section 341 claims Unused capital allowances of Shop 2 Shop 4, $\frac{3}{4}$ of £1,080 — $\frac{1}{4}$ of £720 = £630 (No need to add capital allowances for this shop to the loss, as sufficient loss available to clear profit of Shop 1) | 290 630 | |
| | | 920 | |
| | Less: Used under Section 341 | 820 | 820 |
| | Carried forward | | £100 |
| Company finally assessed on | | | Nil |

| | £ | £ | | £ | £ |
|---|-----|-------------|--|---|---------------|
| 1961/62 | | | 1962/63 | | |
| Shop 1 | | | Shop 1 | | |
| Based on profits of £240 less capital allowances £160 | | 80 | Based on profits of £300 less capital allowances £120 | | 180 |
| Shop 2 | | | Shop 2 | | |
| Based on accounts to December 31, 1960 .. | | Nil | Based on profits of £400 less capital allowances £(180+70)=£250 | | 150 |
| Shop 3 | | | Shop 3 | | |
| Based on accounts to December 31, 1960 .. | 360 | | Based on profits of £800 less capital allowances £30 | | 770 |
| Less: Capital allowances for year £40 + £80 | 120 | | Shop 4 | | |
| | | 240 | Based on profits of £720 less capital allowances £(80+60+100)=£240 | | 480 |
| Shop 4 | | | | | |
| Based on accounts to December 31, 1960 .. | | Nil | | | |
| | | 320 | | | |
| Less: Section 341 claim brought forward | | 100 | | | |
| | | 220 | | | |
| Company finally assessed on .. | | <u>£220</u> | Company assessed on | | <u>£1,580</u> |

Points From Published Accounts

The Festiniog Railway

The Festiniog Railway, constituted under the Festiniog Railway Act, 1832, is the only independently operating survivor of the flood of railway companies formed in the early Victorian era. Built to a gauge of 1 ft. 11½ in., long before

gauges became standard, the railway is remarkable for a number of innovations in railway engineering—including Europe's first bogie coach, which is still running. Its recent history is even more remarkable; after all services had been discontinued in 1945, the rails and rolling stock being left to rot and rust, it was revived by voluntary effort and is now paying its way and extending its services to the public year by year.

The old railway companies were governed as regards accounts by a series of Acts tying them so completely to the historical concept that their balance sheets had to include in perpetuity all their original capital expenditure, regardless of changes in the value of money and of whether the works concerned had been abandoned. If an asset was scrapped, it might, with the changes in the value of money, fetch more than its original cost, so that it then appeared as a minus quantity. By this method, any book-keeping error is perpetuated—it must be remembered when assessing the possibility of error that the company dates from years before accounting became established; forty-eight years, in

fact, before the establishment of the Institute of Chartered Accountants in England and Wales. The British Transport Commission has taken power to change this method of showing accounts, but the directors of the Festiniog Railway cannot fulfil their desire to show a "true and fair view" in their official accounts without promoting a special Act of Parliament to enable them to do so. Little wonder that accounts on the statutory lines proved extremely puzzling to the Lands Tribunal when produced at a recent hearing, at which they were described as misleading nonsense which was "neither true nor fair in any manner but produced to conform with the law."

To overcome this difficulty, three versions of the accounts are prepared:

1. The full statutory accounts, which follow the lines of the Railway Companies (Accounts and Returns) Act, 1911, examples of which may be found in any of the more out-of-date textbooks.
2. Audited accounts submitted to the directors, in the form reproduced below.
3. A modified balance sheet prepared in order to give, at least internally, a true and fair view in a form which, in the words of the secretary of the company, "eliminates the misleading nonsense which we are compelled to perpetrate in the statutory accounts. Neither the directors nor the auditors have any statutory authority for approving accounts in this modified form, and they therefore remain unaudited."

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FESTINIOG RAILWAY COMPANY

Modified Balance Sheet as at December 31, 1960

| Dec. 31, 1959 £ | | Dec. 31, 1960 £ |
|-----------------------|--|-----------------------|
| 162,127 | Fixed Assets—Permanent Way, buildings and rolling stock | 162,122 |
| 1,000,000 | Balances in old Accounts (Note 1) .. | 1,000,000 |
| 1,162,127 | Add: To adjust to estimated modern replacement cost (Note 2) | 1,162,122 |
| | 5,498 Current Assets | 10,841 |
| | 1,308 Railway stores and saleable stocks | 1,890 |
| | 698 Debtors and pre-payments | 1,265 |
| | 3,492 Income Tax Receivable .. | 1,429 |
| | | 6,257 |
| | 1,625 Less: Current Liabilities (Note 3) | 2,486 |
| | 836 Sundry creditors and receipts in advance | 1,940 |
| | 789 Accrued Expenses .. | 546 |
| 3,873 | Net Current Assets less Current Liabilities .. | 8,355 |
| £1,165,000 | Net Book Assets (Note 4) | £1,170,477 |
| | Represented by: | |
| 166,506 | Share Capital and "Debentures" and Loans (Note 5) | 166,506 |
| 1,000,000 | Capital Reserves | 1,000,000 |
| 25,522 | Fixed Asset Replacement Account (Note 2) | 10,361 |
| 6,786 | Suspense and Reserve Accounts (Note 6) | 8,285 |
| | Gifts Account (Note 7) | |
| 1,198,814 | | 1,185,152 |
| | Less: Revenue Account—Adverse Balance | 16,251 |
| 32,935 | Less: Profit for year .. | 1,576 |
| 32,814 | | 14,675 |
| £1,166,000 | Net Capital Employed .. | £1,170,477 |

Note: Under the Railway Companies (Accounts and Returns) Act, 1911, railway companies must produce their accounts in statutory form, and neither the Directors nor the auditors have any authority to produce a balance sheet in the above form. This is therefore submitted unofficially and unaudited in order to show a truer and fairer view more in line with modern accounting.

Notes on the Modified Balance Sheet

1. The balances on the old ledger accounts, over the years since 1832, which were unrealistic in modern terms, were as follows:

| | £ | s. | d. | £ | s. | d. |
|---|---------|----|----|----------|----|----|
| Lines open to traffic, at cost less sales .. | 2,711 | 0 | 7 | | | |
| Rolling stock at cost less sales | 139,147 | 8 | 6 | | | |
| Manufacturing and repairing works and plant | 2,221 | 17 | 0 | | | |
| War Damage contribution | 1,111 | 0 | 0 | | | |
| | | | | 145,191 | 6 | 1 |
| Add: "Capital Displacements Suspense Account" | | | | 16,930 | 12 | 8 |
| Net total shown opposite | | | | £162,121 | 18 | 9 |

The first figure above, namely, £2,711, has been reduced during the year by £5, being the sum obtained for the sale of about fifty square yards of land which originally cost a few shillings. This illustrates the process whereby, under statutory rules for railway accounts, the original cost of the track, believed to be about £80,000 (in 1832 pounds) has been reduced to a meaningless figure.

2. In order to show a "true and fair" view of the 1960 equivalent in real money of the original 1832 expenditure, and likewise of the modern replacement cost of the assets of the company, a "Fixed Assets Replacement Account" has been set up in the attached accounts. Since the statutory powers of the Railway only permit the assets to be used for continued operation and not sold, it is clearly logical to value these assets at replacement cost rather than market value (which could never arise). This is inevitably an extreme approximation of the modern equivalent of the cost of building and equipping the undertaking. In common with railway practice, no depreciation is provided, assets being maintained to operating standards.

3. These figures exclude waived and statute-barred debts, accrued interest on "debentures" and provision for any income tax which would be deductible from any such interest if paid. None of these items, which are detailed in Note 6, are ever expected to become payable, and they are not enforceable against the Company.

4. This "Book figure" is largely based on "replacement cost" and is quite unrelated to "market value" (since the Company has no statutory power to sell its undertaking) or to "earning power" (since the present objective of the Company is to maintain a service to the public, there being no prospect of future dividends in view of the adverse Revenue Account balance and the amount of voluntary assistance which has been received).

5. Share Capital, Debentures and Loans

| | Interest last paid | Authorised | Created | Issued |
|-------------------------------------|--------------------|------------|---------|--------------|
| | £ | £ | s. | d. |
| 4 per cent "Debenture" stock | 1934 | 64,000 | 27,799 | 12 0 |
| 5 per cent Preference shares | 1921 | | 50,000 | 0 0 |
| 4½ per cent Preference shares | 1913 | 176,185 | 10,000 | 0 0 |
| Ordinary stock | (£40) 1913 | | 86,185 | 10 0 |
| Loans | | | | 11,480 9 5 |
| | | 240,185 | 173,985 | 2 0 |
| | | | | 166,505 11 5 |

The term "debenture" is a misnomer in terms of its modern meaning, since this stock carries no rights other than a priority, before the preference stock, in receipt of any interest declared payable. It would also be necessary to pay accrued debenture interest before paying any preference interest. There is no future prospect of interest being paid on debentures or any other stock.

6. Suspense Accounts comprise the following:

| b. Suspense Accounts comprise the following: | | | | | | |
|--|--------|----|----|--------|----|----|
| | 1959 | | | 1960 | | |
| | £ | s. | d. | £ | s. | d. |
| Accrued "Debenture" interest (to 1933) .. | 18,461 | 8 | 4 | 3,299 | 18 | 2 |
| Waived and Statute-barred debts | 2,649 | 11 | 4 | 2,648 | 11 | 4 |
| Fire at Boston Lodge works (in 1939) .. | 639 | 3 | 0 | 639 | 3 | 0 |
| Premium on preference shares (about 1875) .. | 500 | 0 | 0 | 500 | 0 | 0 |
| General Reserve (set up about 1875) | 3,273 | 0 | 1 | 3,273 | 0 | 1 |
| | 25,522 | 2 | 9 | 10,360 | 12 | 7 |

During the period under review, certain items relating to "Debenture" interest, amounting to £16,563, have been written back into Revenue Account, thereby reducing the first figure above and also reducing the adverse balance on Revenue Account.

7. Gifts Account

This consists of cash gifts from well-wishers (including £7,101 from the Festinog Railway Society Ltd.) received since restoration of the line began in 1954. No account is taken of gifts of materials, supplies received at nominal prices, and volunteer labour, the total value of such items being estimated at £50,000 to £60,000.

(Summarised) Revenue Account for the year ended December 31, 1960

| £ | £ | £ | £ |
|----------|---|-------|----------|
| 8,404 | Revenue | | |
| 334 | Passenger Train Traffic | | 11,302 |
| 3,146 | Tonnages and Use of Lines | | 288 |
| 2,260 | Goods Sold | 3,126 | |
| | Less: Cost | 1,819 | |
| | | | 1,307 |
| | Miscellaneous, including Rents and Wayleaves | | 246 |
| | | | 13,143 |
| 3,552 | Expenditure | | |
| 2,771 | Maintenance of Permanent Way, Stations | 4,119 | |
| 1,470 | Maintenance of Rolling Stock | 3,353 | |
| 580 | Locomotive Running Expenses | 1,629 | |
| 1,237 | Traffic Expenses | 720 | |
| 150 | General Charges | 1,548 | |
| | Rates, Chief Rents, Wayleaves, etc. .. | 198 | |
| | | | 11,567 |
| | Balance, being profit carried down .. | | 1,576 |
| | Add: Provision for Debenture Interest to date and tax thereon, no longer considered necessary | | 16,563 |
| | | | 18,139 |
| —33,303 | Adverse Balance as at January 1, 1960 .. | | —32,814 |
| —£32,814 | Adverse Balance carried forward | | —£14,675 |

The Month in the City

The Squeeze at Work

The first official reaction to the success of the July measures was the reduction in Bank Rate to 6½ per cent on October 5. As foreseen, the official view has been that this is purely a reaction to external financial conditions and, in particular, a measure to help the dollar. If its first result was to reduce the flow of very "hot" money to London, it also increased the amount coming here without being covered by forward sales; it is probable that October witnessed an increase in the amount of investment by foreigners—admittedly at short term—in British securities. This is one factor, but perhaps not a major one, in the rise in the Funds, dealt with below. Three weeks later, on October 26, this step was followed by the announcement that £100 million of the amount drawn from the I.M.F. was to be repaid forthwith, this sum being added to the standby portion of the credit, which had not been used. This is thus a redeployment of our reserves and at the same time a means to reducing the internal effects of short-term rates, which were still high. A further step was taken on November 2, when Bank Rate was reduced by half a point to 6 per cent. It was again officially stated that this did not mean any relaxation of the general direction of official policy, but the fall in short-term rates must of course have internal results, some of which may be antagonistic to the policy of restraint both on spending and on the rise in domestic costs and prices. However, it is evident that the purely financial effects of the "little budget" have already been substantial. It cannot yet be said that exports have reaped any important benefit, while there appears to have been at least a pause in industrial production in August, and spending on consumption has kept up in money terms, thanks in part to a very modest increase in retail prices. But bank advances have fallen at a rate which made it possible for the banks to resume buying of Government securities while increasing their liquidity ratios, thus helping to spread the effects of lower short-term rates to the longer end of the bond market. In another field gross profits of companies showed a falling trend in the second quarter; it is now rare for increased dividends to be declared, and there have even been

some reductions. Further, before the end of October a modest rise in unemployment and some fall in actual vacancies had brought these two figures together once more. The foreign field, both financial and political, continues to be subject to acute uncertainties; at home wage demands and strikes are still all too common, but some progress has been made towards a firmer basis.

While the balance of payments system remains far from good, October developments made it possible to repay overseas debts to the tune of some £120 million at the cost of a fall of £8 million in the reserve.

Switch to Fixed Interest

The result of these developments has been to confirm and accentuate a change in sentiment already evident a month ago, namely, a movement into fixed interest securities, and in particular into the Funds, partly at the expense of sales of ordinary shares. The earlier strength of these barely survived the October cut in Bank Rate, and in some ten days there was a fall of 5 per cent in the industrial ordinary index of the *Financial Times*. This was followed by a rather hesitant rally which left the index little changed on the month. Meanwhile, the fixed interest index had risen by over 3 per cent. Apart from the Funds there was an early indication of investors' feelings in the response to the offer of £10 million London County Council 6½ per cent Stock, 1971/72, offered at 96½ to yield £6 19s. to redemption. There was a rush for this and it rapidly established a large premium. Within the field of the Funds the movement has been from shorts to medium-dated stocks, and from them into long-dated. Selling of the first enabled the authorities to replenish their depleted holdings, and an effort has been made to control the other end of the market by official sales of Treasury 5½, 2008–2012, which, at the time of writing, still looks remarkably cheap compared with other very long stocks. Apart from foreign and banking money the institutions and individual investors have been putting new savings, and to some extent the proceeds of sales of equities, into the Funds. Since the budget is expected to be in overall surplus, no new issue in this field, apart from conversions, is necessary and those in

search of the nearest equivalent will probably have opportunities to take up new local authority loans as soon as these bodies believe that the end of the fall in longer term rates is in sight. At the moment they can borrow short from almost any source, including some of the foreign balances seeking temporary accommodation. As a result of these operations the yield margin between Old Consols and the ordinary shares of the *Financial Times* index fell on the month from 1.18 to 1.04 points.

Simplified Transfers

Those who are hoping for early action to introduce some less cumbersome method of transferring stock may be able to extract some satisfaction from the statement of Mr. Barber, Economic Secretary to the Treasury, at the Conservative Party conference. He said that the Government was considering what legislation might be involved. The recommendations of the committee of representatives of the Stock Exchange which reported last December have been fully discussed and some adjustments suggested. This report is, presumably, to form the basis for Government action. No bill is apparently being drafted yet to cover the somewhat complicated adjustments which even the modest improvements suggested would entail, so that no actual change in practice is likely until well into next year. There is also the fact that the Chairman of the Stock Exchange has again urged the Chancellor to consider either an abolition or a marked reduction of stamp duty. This tax is an even greater deterrent to foreign investment here than our complicated transfer arrangements, and it is to be hoped that something will be done to ease co-operation between London and Continental bourses.

Commonwealth-European Trust

The process of creating trusts for special purposes continues. The latest instance is the formation by an international banking group of a new investment trust to specialise in Commonwealth and European securities. The capital of the trust will be in dollars, and it will be domiciled in and managed from Luxembourg. Among the participants are S. G. Warburg of London and the Commerzbank of Dusseldorf. Initially it is proposed to invest some 40 per cent of a total capital of \$7.5 million in Britain, Canada and Australia and the rest in Europe. The shares will be marketed in due course.

The Institute of Chartered Accountants in England and Wales

Meetings of the Council

AT SPECIAL AND ordinary meetings of the Council held on Wednesday, November 1, 1961, at the Hall of the Institute, Moorgate Place, London, E.C.2, there were present: Mr. P. F. Granger, President, in the chair; Mr. P. F. Carpenter, Vice-President; Mr. J. F. Allan, Mr. C. Percy Barrowcliff, Mr. W. L. Barrows, Mr. T. A. Hamilton Baynes, Mr. J. H. Bell, Mr. H. A. Benson, C.B.E., Sir William Carrington, Mr. G. T. E. Chamberlain, Mr. D. A. Clarke, Mr. J. Clayton, Mr. E. Hay Davison, Mr. W. G. Densem, Mr. S. Dixon, Mr. W. W. Fea, Sir Harold Gillett, Bt., M.C., Mr. J. Godfrey, Mr. G. G. G. Gault, Mr. L. C. Hawkins, Mr. J. S. Heaton, Mr. D. V. House, Mr. J. A. Jackson, Mr. H. O. Johnson, Mr. W. H. Lawson, C.B.E., Mr. H. L. Layton, Mr. R. B. Leech, M.B.E., Mr. R. McNeil, Mr. J. H. Mann, M.B.E., Mr. R. P. Matthews, Mr. Bertram Nelson, C.B.E., Mr. W. E. Parker, C.B.E., Mr. F. E. Price, Mr. L. W. Robson, Sir Thomas Robson, M.B.E., Mr. J. D. Russell, Mr. D. Steele, Mr. J. E. Talbot, Mr. A. H. Walton, Mr. V. Walton, Mr. M. Wheatley Jones, Mr. E. F. G. Whinney, Mr. J. C. Montgomery Williams, Mr. R. P. Winter, C.B.E., M.C., Mr. E. K. Wright, Sir Richard Yeabsley, C.B.E.

Election to the Council

Mr. Ralph Gordon Slack, M.A., F.C.A., was elected a member of the Council to fill the vacancy caused by the resignation of Mr. Charles Maxwell Strachan, O.B.E., F.C.A.

Appointment to Committee

Sir William Carrington has been appointed to the Disciplinary Committee to fill the vacancy caused by the resignation from the Council of Mr. C. M. Strachan.

Canadian Institute of Chartered Accountants

The Council received a report from Mr. W. H. Lawson on his attendance at the 59th Annual Conference of the Canadian Institute of Chartered Accountants held in Toronto from September 24 to 27, 1961, where he gave a paper on practical steps to improve financial statements.

Nederlands Instituut van Accountants

The Council received a report from Sir Thomas Robson on his attendance with the President and Mr. S. John Pears and the Secretary at the Accountants' Yearday of the Nederlands Instituut van Accountants

at Scheveningen on September 29 and 30 1961.

Chartered Accountants Retirement Benefits Scheme (CARBS)

The Council approved a notice for issue to all members in the United Kingdom regarding the benefits obtainable under the Chartered Accountants Retirement Benefits Scheme as compared with those obtainable elsewhere.

Chartered Accountants Employees Superannuation Scheme (CAESS)

The Council authorised the issue to all members of a report (reproduced elsewhere in this issue) by Chartered Accountants Trustees Limited as trustees of Chartered Accountants Employees Superannuation Scheme.

Local Government Act, 1933

Section 76: Disclosure of pecuniary interest

The Council received the opinion of Counsel on the position of practising members of the Institute who are members of local authorities and are therefore subject to the provisions of Section 76 of the Local Government Act, 1933. The opinion will be issued to members in due course for insertion in the *Members' Handbook*.

Approved University Degree Courses: Bye-law 62

The Council resolved that the following degree courses be approved for the purposes of Bye-law 62 (in place of those previously approved) provided that the subjects taken are in accordance with the course approved by the Joint Standing Committee of the Universities and the Accountancy Profession:

From October 1961:

| | |
|--------------------------|---------------|
| University of Leeds | B.COM. |
| University of London | B.SC. (ECON.) |
| University of Manchester | B.A. (ECON.) |

From October 1962:

| | |
|---------------------------|--------------------------|
| University of Southampton | B.SC. (Social Sciences). |
|---------------------------|--------------------------|

There is no change in the position of students who have commenced a degree course previously approved under Bye-law 62.

Registration of Articles

The Secretary reported the registration of

535 articles of clerkship during the last month, the total number since January 1, 1961, being 2,352.

Admissions to Membership

The following were admitted to membership of the Institute:

- ALLEN, HENRY MICHAEL CUNARD, A.C.A., a1961; 1 Hurst Dale, Devisdale Road, Bowdon, Cheshire.
- AMORIN, JOAO NEWTON EUGENIO, B.COM., A.C.A., a1961; c/o College of Administration, Achimota, near Accra, Ghana.
- BARRELL, MICHAEL ANTHONY CARL, A.C.A., a1961; with Peat, Marwick, Mitchell & Co., 11 Ironmonger Lane, London, E.C.2.
- §BATES, PETER JOHN, A.S.A.A., a1961; c/o Technimetals (Proprietary) Ltd., P.O. Box 6880, Johannesburg, S. Africa.
- BATES, PHILIP, A.C.A., a1961; 59 Medbourne Crescent, Southdene, near Liverpool.
- §CLOW, PETER JON, A.S.A.A., a1961; 327 Station Street, Hatfield, Pretoria, S. Africa.
- §DAMANT, FREDERICK MICHAEL, A.S.A.A., a1961; with Alex, Aiken & Carter, P.O. Box 975, Pretoria, S. Africa.
- FIELDEN, DAVID SHAW, A.C.A., a1961; 5 Sutherland Drive, West Bridgford, Nottingham.
- §HANNA, JOHN PETER ROBERTSON, A.S.A.A., a1961; 24 Newton Wood Road, Ashted, Surrey.
- HILL, JOHN BENNETT, A.C.A., a1961; c/o "Marthaven," Slade, Cosheston, Pembroke Dock, W. Wales.
- HILL-COTTINGHAM, BRIAN EDWARD, A.C.A., a1961; 14 Highfield Road, Chelmsford, Essex.
- JONES, KENNETH, A.C.A., a1961; 6 Burneston Gardens, Bradford 6.
- KEYES, ROGER EDWARDS, A.C.A., a1961; "St. Eloi," West End Avenue, Pontnewynydd, Pontypool, Mon.
- LIDDIARD, GEOFFREY, A.C.A., a1961; 230 Turney Road, Dulwich, London, S.E.21.
- MOORE, GEORGE GRAHAM, B.A., A.C.A., a1961; 4 Marchmont Gardens, Richmond, Surrey.
- MORGAN, CEDRIC EVAN, B.A., A.C.A., a1961; 12 Badminton Road, London, S.W.12.
- PEACOCK, ROYSTON, A.C.A., a1961; 56 Rydal Road, Darlington.

§ Means "incorporated accountant member."

¶ Means "member in practice."

a Indicates the year of admission to the Institute.

aS Indicates the year of admission to The Society of Incorporated Accountants.

Firms not marked † or * are composed wholly of members of the Institute.

† Against the name of a firm indicates that the firm, though not wholly composed of members of the Institute, is composed wholly of chartered accountants who are members of one or another of the three Institutes of chartered accountants in Great Britain and Ireland.

* Against the name of a firm indicates that the firm is not wholly composed of members of one or another of the three Institutes of chartered accountants in Great Britain and Ireland.

†† Against the name of a firm indicates that the firm includes an incorporated accountant member of the Institute and is composed wholly of members of one or another of the three Institutes of chartered accountants in Great Britain and Ireland.

REAY, CHRISTOPHER JOHN, B.A., A.C.A., *a1961*; "Molende," Molemead Road, East Molesey, Surrey.

RICHARDS, (Miss) GILLIAN MARGARET, A.S.A.A., *a1961*; P.O. Box 5186, Nairobi, Kenya.

ROPE, JONATHAN HUMPHREY PACKARD, A.C.A., *a1961*; Knole House, Claydon, Ipswich.

SHUTTE, MALCOLM DAVID NEALE, A.C.A., *a1961*; 31 Portsdown Hill Road, Bournemouth, Havant, Hants.

SOAR, BRIAN FRANCIS, A.C.A., *a1961*; 36 Beattyville Gardens, Ilford, Essex.

WILSON, WALTER ALLAN, A.C.A., *a1961*; 63 Pemberton Road, East Molesey, Surrey.

WORBEY, RICHARD CHARLES, A.C.A., *a1961*; 63 Burford Way, Hitchin, Herts.

Fellowship

The Council acceded to applications from twelve associates to become fellows under clause 6 of the supplemental Royal Charter.

Incorporated Accountant Members Becoming Associates

The Council acceded to two applications from the following incorporated accountant members for election as associates under clause 6 of the scheme of integration referred to in clause 34 of the supplemental Royal Charter:

GIRLING, NORMAN, A.S.A.A., *a1956*; ††A. J. Gould & Norman Girling, The Strand Padstow, Cornwall.

KIRBY, TERENCE COLIN, A.S.A.A., *a1958*; with Smailes, Holtby & Gray, 99 Princes Avenue, Hull.

Members Commencing to Practise

The Council received notice that the following members had commenced to practise:

ANDREWS, ERNEST PHILIP, T.D., F.C.A., *a1947*; "Ilchester", West Cliff, Bridport, Dorset.

BATES, EDWARD LAURENCE, A.C.A., *a1952*; Thomas May & Co., Allen House, Newark Street, Leicester.

BAYLEY, HAROLD GEORGE, F.C.A., *a1937*; Louis Nicholas & Co., Scottish Equitable Chambers, 19 Castle Street, Liverpool 2.

BENNETT, BARRIE JOHN ARTHUR, A.C.A., *a1951*; Russell, Durie Kerr, Watson & Co., Lombard House, Great Charles Street, Birmingham 3, and at London.

BERESFORD, COLIN, A.C.A., *a1961*; P. F. Pierce & Co., 13 Cannon Street, Accrington.

BOLAND, ROBERT GEORGE ALFRED, B.A., F.C.A., *a1949*; Stenning & Boland, Stenforth, Barons Court, Burgess Hill, Sussex, and at Warminglid.

BOWEN, JOHN NEIL, A.C.A., *a1958*; Bowen, Dawes, Wagstaff & Co., 16 Bridge Street, Worcester.

BRAND, RICHARD WALTER, A.C.A., *a1954*; Arthur Bass & Co., Chansitor House, 37-38 Chancery Lane, London, W.C.2.

BURGESS, GEOFFREY JOHN, A.C.A., *a1955*; E. J. H. Clarke & Co., 294 High Street, Acton, London, W.3; also at Lloyds Bank Chambers, 310/312 Chiswick High Road, London, W.4, E. J. H. Clarke & Co., and Clarke, Maynard & Son.

CLARKE, JOHN EVELYN, A.C.A., *a1961*; E. J. H. Clarke & Co. and Clarke, Maynard & Son, Lloyds Bank Chambers, 310/312 Chiswick High Road, London, W.4; also at 294 High Street, Acton, London, W.3, E. J. H. Clarke & Co.

COGHILL, ANTHONY EDWARD, A.C.A., *a1960*; Howell & Magee, 131 High Street, Teddington, Middx.; also at Hayes, F. A. Magee & Co.

COX, TREVOR, A.C.A., *a1960*; William Wetton & Co., 28 Kennedy Street, Manchester 2.

CUNNINGTON, JAMES PHILIP, A.C.A., *a1959*; *P. J. Cunningham & Co., District Bank Chambers, Hotel Street, Leicester.

EDGLEY, GEOFFREY HENRY GEORGE, F.C.A., *a1926*; Bryden, Channing & Co., 28 East Street, Bridport, Dorset.

ELLIOTT, DENIS MICHAEL, A.C.A., *a1953*; Donald, Hancock & Elliott, Ellerslie Chambers, Hinton Road, Bournemouth.

EVANS, DEREK JACKSON, A.C.A., *a1954*; Hargreaves, Brown & Benson, 2 Derby Street, Colne, Lancs.

FELTON, ANTON PETER, A.C.A., *a1961*; Anton Felton & Co., 191-193 Church Road, Willesden, London, N.W.10, and 12 Froggnal Lane, Hampstead, London, N.W.3.

FREEDMAN, MICHAEL AUGUSTUS, A.C.A., *a1960*; Michael Freedman & Co., 73 Marsden Road, South Shields, Co. Durham.

GORDON, ALEXANDER DUNCAN, M.A., A.C.A., *a1955*; Cooper Brothers & Co. and Coopers & Lybrand, Abacus House, 33 Gutter Lane, Cheapside, London, E.C.2, and at Teheran.

GROSE, DOUGLAS ANDREWS, A.C.A., *a1959*; James Christie & Co., Mansion House, Princes Street, Truro, Cornwall; also at Newquay, Christie, Hulbert & Co.

HITCHINS, WILFRED DAVID WILLIAM, A.C.A., *a1961*; c/o 23A Queen Victoria Street, Reading.

HOLLIS, ANTHONY JOHN, A.C.A., *a1953*; Hope, Agar & Co., Pinners Hall, Austin Friars, London, E.C.2.

HOWELL, ALBERT, A.C.A., *a1961*; Johnstone, Howell & Co., Post Office Chambers, Carnegie Street, Ellesmere Port, Cheshire.

LADDIN, PHILLIP, A.C.A., *a1961*; Phillip Laddin & Co., 16 Westmeade, Prestwich, Manchester.

LANDER, GEORGE WILLIAM, F.C.A., *a1948*; *Gough, Wright & Co. and Gough & Wright, Lloyds Bank Chambers, High Street, Brierley Hill, Staffs.

LOWE, JOHN BRUCE DUFF, A.C.A., *a1959*; Louis Nicholas & Co., Scottish Equitable Chambers, 19 Castle Street, Liverpool 2.

LUCK, GEORGE WILLIAM, F.C.A., *a1934*; 1 Dunraven Street, Tonypandy, Glam.

LYON, MICHAEL GORDON, A.C.A., *a1959*; Louis Nicholas & Co., Scottish Equitable Chambers, 19 Castle Street, Liverpool 2.

MCBROOM, ARCHIBALD IAN, A.C.A., *a1957*; *McBroom & Co., 275 Ecclesall Road, Sheffield 11.

MARLOW, KENNETH REGINALD, A.C.A., *a1955*; Hardeman Smith & Power, 96 Hagley Road, Edgbaston, Birmingham 16, and at Balsall Common.

MELLOR, STEPHEN WARD, A.C.A., *a1957*; 36 Wilmington Square, London, W.C.1.

PHILP, JOHN ROBERTSON, F.C.A., *a1938*; Louis Nicholas & Co., Scottish Equitable Chambers, 19 Castle Street, Liverpool 2.

PITT, ARTHUR THOMAS, A.C.A., *a1956*; Central Chambers, Bearwood Road, Smethwick 41, Staffs.

RAMPTON, JOHN, A.C.A., *a1958*; Fryer, Sutton, Morris & Co., 175 Friar Street, Reading, and at London.

ROBSON, GORDON, A.C.A., *a1957*; 16 Findon Crescent, Sheffield 6.

STANLEY, ERIC WILLIAM, A.C.A., *a1958*; *Seymour, Taylor & Co., Station Close, Amersham Hill, High Wycombe.

STENNING, RAYMOND GEORGE, A.C.A., *a1960*; Stenning & Boland, Stenforth, Barons Court, Burgess Hill, Sussex, and at Warminglid.

STIRLING, MALCOLM DOUGLAS, A.C.A., *a1957*; Russell, Durie Kerr, Watson & Co., Lombard House, Great Charles Street, Birmingham 3, and at London.

THOMAS, RICHARD ARNOLD, A.C.A., *a1951*; Edmonds & Co., Pearl Buildings, Portsmouth, and at Chichester, Newport (I.O.W.), Petersfield, Ryde, Shanklin and Ventnor.

TOMLINSON, BRIAN, A.C.A., *a1960*; Bedell & Blair, 79 Mosley Street, Manchester 2.

UTTLEY, ROBERT DAVID, A.C.A., *a1956*; F. Hunter, Gregory & Lord, 7 Irwell Terrace, Bacup, Lancs; also at Glossop and Manchester, F. Hunter, Gregory & Lord and Bowman, Dawes & Co.

WARDROPPER, JAMES ALAN, B.A., A.C.A., *a1955*; †Peat, Marwick, Mitchell & Co., 17 Eldon Square, Newcastle upon Tyne 1.

ZATMAN, MERTON SYDNEY, A.C.A., *a1958*; Turk, Brandes & Co., and Alexander Gross & Turk, 3/4 Clement's Inn, Strand, London, W.C.2.

Admission to Membership under the Scheme of Integration

Subject to payment of the amount required by the Council, the Council acceded to an application from one former member of The Society of Incorporated Accountants for admission to membership of the Institute under clause 5 of the scheme of integration referred to in clause 34 of the supplemental Royal Charter.

Re-admission to Membership

Subject to payment of the amount required by the Council, one former member of the Institute was re-admitted to membership under clause 23 of the supplemental Royal Charter.

It was reported to the Council that the following re-admissions, made at the Council meeting on October 4, 1961, subject to payment of the amounts required, had become effective:

LOVE, FRANK, A.C.A., Avon Cottage, High Halden, Ashford, Kent.

PASSER, HENRY MARCUS, F.C.A., 34 Sussex Lodge, London, W.2.

RICHARDS, TIMOTHY ROY, A.C.A., 2 Warwick Yard, Whitecross Street, London, E.C.1.

YOUATT, ROY DEINIOL, A.C.A., 8 Thelwall New Road, Thelwall, near Warrington.

Resignations

The Council accepted the resignation from membership of the Institute of:

SOTHERS, RALPH HENRY, F.C.A., *a1909*; 16 Croften Road, Ipswich.

Deaths of Members

The Council received with regret the Secretary's report of the deaths of the following members:

ASHBURNER, ROBERT PERCY FOSTER, F.C.A., Wadhurst.

HIRST, GREENWOOD LACY, F.C.A., Dewsbury.

MILLER, (Miss) DOROTHY HELENA, F.C.A., London.

MOMBER, CECIL ANTHONY, F.C.A., Rye.

MORRIS, ERIC JAMES, A.C.A., London.

PAIN, SIR CHARLES JOHN, F.C.A., Nottingham.

SHARPE, SIDNEY, F.C.A., London.

SIMMONDS, ANTHONY CECIL, F.C.A., London.

SMITH, BASIL ARTHUR, D.S.M., LL.D., F.C.A., London.

SYKES, STANLEY WILLIAM, F.S.A.A., Margate.

Findings and Decisions of the Disciplinary Committee

Findings and Decisions of the Disciplinary Committee of the Council of the Institute appointed pursuant to bye-law 103 of the bye-laws appended to the supplemental Royal Charter of December 21, 1948, at hearings held on September 25, 1961.

A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council that Douglas Alfred Kater, F.C.A. (a) failed to satisfy a judgment debt amounting to £500 together with a sum of £13 3s. 6d. for costs obtained by a limited company; (b) had been guilty of acts or defaults discreditable to a member of the Institute within the meaning of sub-clause (3) of Clause 21 of the supplemental Royal Charter in that he failed to reply or take any action in response to a letter addressed to him by the Secretary of the Institute, so as to render himself liable to exclusion or suspension from membership of the Institute. The Committee found that the formal complaint against Douglas Alfred Kater, F.C.A., had been proved under both headings and the Committee ordered that Douglas Alfred Kater, F.C.A., c/o a bank in Adelaide, South Australia, be excluded from membership of the Institute.

A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council that a Fellow of the Institute had been guilty of acts or defaults discreditable to a member of the Institute within the meaning of sub-clause (3) of Clause 21 of the supplemental Royal Charter in that he accepted appointment as professional accountant without first communicating with the existing professional accountants, so as to render himself liable to exclusion or suspension from membership of the Institute. The Committee found that the formal complaint had been proved and ordered that the member be admonished, but considered that there existed special circumstances justifying the omission of his name from the publication of the Finding and Decision.

Finding and Decision of the Disciplinary Committee of the Council of the Institute appointed pursuant to bye-law 103 of the bye-laws appended to the supplemental Royal Charter of December 21, 1948, at a hearing held on October 4, 1961.

A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council that Roger Morse being a clerk under articles to an Associate of the Institute was convicted at a Magistrates' Court on three charges under the Larceny Act, 1916, of receiving articles knowing the same to have been stolen, so as to render himself liable to be declared unfit to become a member of the Institute. The Committee

found that the formal complaint against Roger Morse had been proved and the Committee declared that Roger Morse was not fit to become a member of the Institute.

Taxation and Research Committee

THE ONE-HUNDRED-AND-SEVENTEENTH meeting of the Taxation and Research Committee was held at the Institute on Thursday, October 26, 1961.

Present: Mr. J. Cartner (in the chair), Mr. F. W. Allaway, Mr. G. R. Appleyard, Mr. G. L. Aspell, T.D., Mr. R. D. R. Bateman, M.B.E., Mr. C. J. M. Bennett, Mr. R. P. Brown, Mr. K. A. Buxton, Mr. W. R. Carter, Mr. R. A. Chermiside, Mr. L. H. Clark, Mr. S. M. Duncan, Mr. W. F. Edwards, Mr. E. S. Foden, Mr. C. R. P. Goodwin, Mr. J. S. F. Hill, Mr. A. P. Hughes, Mr. G. N. Hunter, J.P., Mr. R. O. A. Keel, Mr. H. Kirtton, T.D., Mr. S. Kitchen, Mr. C. Yates Lloyd, Mr. J. W. Margetts, Mr. B. A. Maynard, Mr. S. A. Middleton, Mr. G. P. Morgan-Jones, Mr. E. J. Newman, Mr. R. D. Pearce, Mr. L. Pells, Mr. J. Perfect, Mr. T. B. Pritchard, Mr. A. H. Proud, Mr. D. W. Robertson, Mr. H. Robinson, Mr. H. G. Sergeant, Mr. B. D. Shaw, Mr. H. C. Shaw, Mr. H. Eden Smith, Mr. D. E. T. Tanfield, Mr. C. C. Taylor, J.P., Mr. A. G. Thomas, Mr. L. R. Turner, Mr. D. C. Urry, Mr. J. G. Vaughan, and Mr. G. H. Yarnell, and Mr. N. B. Hart, with the Assistant Secretaries.

Address by the President of the Institute

The President of the Institute, Mr. P. F. Granger, F.C.A., attended the opening of the meeting. In reply to a speech of welcome by the chairman, the President said:

Each year it is the custom for the President of the Institute to be privileged to say a few words at the beginning of the Taxation and Research Committee's new year of work, and it seems to me that almost every President refers to his happy years with the Committee, of which he was or was not a founder member. I am afraid I can make no such claim, but I have seen a lot of the work of this committee through membership of the Council and its committees, and mainly of course through the Parliamentary and Law Committee.

This is the beginning of the Committee's twentieth year of office—it was I think formed in May, 1942, at a difficult time in the war. Mr. Foden has been on it since the beginning, being the only member of the original committee still sitting, and our congratulations are due to him.

During the past year to September 30, 1961, the Council has published three documents of great importance, that is, on the Treatment of Stock-in-Trade and Work in Progress in Financial Accounts, General Principles of Auditing and the Audits of Building Societies. Furthermore the Council has submitted memoranda to the Chancellor of the Exchequer on the Finance Bill,

1961, Accounts and Audit of Friendly Societies and Industrial and Provident Societies, and Decimisation of the Currency. In addition, memoranda have been submitted to the Board of Inland Revenue on Schedule E and A notices of assessment.

Practically all the above documents and memoranda have had their birth pangs in this committee, and great credit is due to the members of it for the work they have put in. No committee of the Council is more appreciative of this work than the Parliamentary and Law Committee, though of course there are times when men of mettle meet; when the sparks fly, the word "disgusting" is used, and so on, because the child you have delivered has not quite the right shape or colour for adoption by the Council and vice versa.

You have submitted no less than five reports on subjects of great professional interest which are currently under review by the Parliamentary and Law Committee, and you have a vast number of other matters under consideration at the present time. It will be a busy year.

Before I finish I would like to refer to the great work of Mr. N. B. Hart, who was a member of the committee for many years, acted as chairman of many sub-committees and did a great job for the Institute. In addition, there is Mr. G. N. Hunter, your immediate past chairman, who has served on the Committee since 1953. He also has been a stalwart and done great work as chairman of your committee and as chairman or member of sub-committees.

Finally, I must refer to your new chairman, Mr. J. Cartner, a director of Metal Box and a member of the Committee since 1950. You do not become chairman of this committee without having done your stuff. I congratulate him on his appointment and wish him a pleasant and profitable year of office, and you all wisdom and happiness in your deliberations.

Mr. G. N. Hunter, J.P., F.C.A.

A hearty vote of thanks was accorded to Mr. G. N. Hunter for his services as Chairman during the year 1960/61.

Membership

The Chairman extended a warm welcome to the following new members of the Committee: Mr. G. L. Aspell (*Leicester*), Mr. A. P. Hughes (*London*), Mr. B. A. Maynard (*London*), Mr. E. J. Newman (*Birmingham*), Mr. T. B. Pritchard (*Bristol*), Mr. L. R. Turner (*Sheffield*), Mr. D. C. Urry (*London*).

It was agreed that letters of appreciation for their services be sent to the following who have retired from membership of the Committee: Mr. G. F. Ansell (1959/61), Mr. C. V. Best (1958/61), Mr. N. B. Hart (1950/54 and 1955/61), Mr. J. A. B. Keeling (1957/61), Mr. J. W. Walkden (1955/61), Mr. F. J. Weeks (1954/61).

Sub-Committees

A report was received from the Planning Sub-Committee.

"TWICE AS MANY..."

orders processed per day with 'Multilith' "

MR. D. S. WALLEN,
Chief Commercial Manager
Playtex Ltd., world-famous
makers of Playtex Girdles and
Bras, pays tribute to effectiveness
of "Multilith" Systems Duplicating.



Mr. Fulton, how
can we process our
orders faster and
cut our Invoicing
costs?

1 It seemed that our Order Invoicing system was not keeping pace with our increasing sales. I discussed it with the responsible executive.

Mr. Fulton did the sensible thing. He called in the "Multilith" people.

2



We've surveyed
your problem,
Mr. Fulton, and
this is our proposal
for dealing
with it.



It's easy to operate
—and so clean.

3

The "Multilith" Systems Duplicator was installed and these startling advantages resulted:

- At least twice as many orders processed per day
- Over 40% saving in order Invoicing costs
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Progress reports were received from eleven special sub-committees.

Future Meetings

The one-hundred-and-eighteenth meeting of the Committee will be held on Thursday, December 14, and the following dates were provisionally fixed for meetings in 1962: Thursdays, February 8, April 12, June 14, September 13, October 11, December 13.

Members' Library

A new edition of the *Short List* of books in the library of the Institute, including books available on loan, has just been issued. Copies of the list are available to members, free and post free, from the Librarian upon receipt of an addressed label.

The Librarian reports that among the books and papers acquired by the Institute in recent weeks by purchase and gifts are the following:

Balance Sheets and the Lending Banker: a new assessment of accounts and their interpretation in relation to bank advances; by J. H. Clemens: 3rd edn. 1961. (Europa Publications, 30s.)

Bid for Power; by G. Bull and A. Vice: 3rd edn. 1961. (Elek Books, 35s.)

The Birmingham Post & Mail Ltd.: nominal ledger accounts code numbers. (Birmingham Post & Mail Ltd.) [n.d.] (Presented.)

Classification of Working Expenses. (London Transport Executive.) 1958. (Presented.)

The De Havilland Aircraft Company Ltd.: nominal ledger code. (De Havilland Aircraft Company Ltd.) 1960. (Presented.)

The Dictionary of National Biography...: the concise dictionary: part I: from the beginnings to 1900: ed. by G. Smith: 2nd edn. 1906. (O.U.P., 60s.)

The Economics of Wages and the distribution of income; by D. J. Robertson. 1961. (Macmillan, 21s.)

Farm Organisation and Management; by G. Hayes: 2nd edn. 1961. (Crosby Lockwood, 25s.)

George Goodman Ltd.: Codes of Accounts and Cost Centres. (George Goodman Ltd.) 1961. (Presented.)

Guest Keen & Nettlefolds (Midlands) Ltd.: screw division. (Guest Keen & Nettlefolds (Midlands) Ltd.) [n.d.] (Presented.)

The Law of Agency; by R. Powell: 2nd edn. 1961. (Pitman, 60s.)

Master of Others; by N. Tronchin-James. 1961. (Cassell, 21s.)

Mayne and McGregor on Damages; by J. D. Mayne: 12th edn. by H. McGregor. 1961. (Sweet and Maxwell, 150s.)

Personnel Management Salaries: report of a survey undertaken in February/March

1961. (Institute of Personnel Management.) 1961. (I. of P.M., 21s.)

The Philosophy of Auditing; by R. K. Mautz and H. A. Sharat. (Menasha, Wisconsin.) 1961. (American Accounting Association, presented by the publishers.)

The Prices of the several Stocks, Annuities and other public securities... from... March 26th, 1715 to... June 22nd, 1716; by John Freke. (1716.) (Sotheby, £25.)

A Probate Handbook; by D. R. Le B. Holloway. 1961. (Solicitors Law Stationery Soc., 30s.)

Relax with a Smile; by C. K. Wright. 1960. (George Allen & Unwin, 12s. 6d.)

Smith's Taxation: 65th edn. by A. E. Bevan. 1961. (Advertiser Press, 17s. 6d.)

Standard Boardroom Practice. (Institute of Directors.) 1961. (I. of D., 12s. 6d.)

Stevens' elements of Mercantile Law; by T. M. Stevens: 13th edn. by J. Montgomerie. 1960. (Butterworth, 21s.)

Studies in Social and Financial Accounting: ed. by Phyllis Deane. 1961. (Bowes & Bowes, 45s.)

The Thief in the White Collar; by N. Jaspán and H. Black. New York. 1960. (J. B. Lippincott, 41s.)

"Use Your Chartered Accountant"

THE ANNUAL DINNER of the Leicestershire and Northamptonshire Society of Chartered Accountants was held at the Grand Hotel, Leicester, on October 16. The President, Mr. C. R. Riddington, F.C.A., was in the chair. Among the guests were the deputy Lord Mayor of Leicester, Alderman Mrs. Dorothy Russell; the Lord Bishop of Leicester, Dr. R. R. Williams, D.D.; Mr. Sebag Shaw, LL.B., Recorder of Ipswich; Sir Donald Perrott, K.B.E.; Mr. P. F. Granger, F.C.A., President of The Institute of Chartered Accountants in England and Wales, and Mr. C. A. Evan-Jones, M.B.E., Under-Secretary of the Institute.

Proposing the toast of The Institute of Chartered Accountants in England and Wales, Sir Donald Perrott, K.B.E., a former member of the Atomic Energy Authority, said he had been associated with the Institute for forty years and had a very high regard for its members. He wished its President every success in his term of office and paid tribute to the "benign good nature" of Mr. Granger, "a very fine leader."

Responding to the toast, Mr. P. F. Granger, F.C.A., President of the Institute, tendered thanks for the very delightful things Sir Donald had said about its members. The paper Sir Donald had delivered at Cambridge was entitled "What the business man expects of his professional accountant." Mr. Granger thought it would

be fitting to take the subject in reverse: "What the professional accountant expects of the business man."

The Institute now had a membership in the region of 35,000, with a student body numbering some 14,000. These figures indicated the scope, quality and volume of demand for the services of professional accountants—not only in practice but also in industry, commerce, government, local government and overseas. There were estimated to be approximately 10,000 members of the Institute in professional practice, 6,000 in retirement or abroad, and about 17,000 employed in professional firms or in industry.

Under present arrangements the practising side was responsible for the training of the prospective chartered accountant. Where he went after training was a difficult choice. Fortunately for this country, a good proportion of members elected for industry: there was a great need for trained men with an objective approach to the industrial problems that would become even more awkward, whether or not Great Britain entered the Common Market. Whether in practice or not, members were in a position to render a service in the planning and interpretation of business records which could be of immense value to the business community. "What I am in effect saying is, use your chartered accountant. Whether practising or not, he has much to offer, but of course he needs the appropriate and proper reward."

Being a chartered accountant carried with it, nevertheless, not only the opportunity of earning an adequate reward but also an equivalent opportunity of service to the community. Personally he did not see how any great profession could continue to flourish unless its members were ready to place themselves at the disposal of the community freely, and at times without reward. Quite obviously there was going to be some severe mental and commercial stocktaking in the near future if this country was to prosper, and he hoped that full use would be made of their Institute and its members.

The President was delighted that his winter visits to District Societies had opened in Leicester. With its magnificent industries Leicester could make a great contribution to exports and he knew it would not fail.

In proposing the toast of the guests, Mr. C. R. Riddington, F.C.A., President of the Leicestershire and Northamptonshire Society, welcomed Alderman Mrs. Dorothy Russell, the deputy Lord Mayor. He announced that the Society was contributing some small pieces to the City's collection of civic plate, and it was hoped that other professional bodies would follow its example.

Responding to the toast, Mr. Sebag Shaw, LL.B., barrister-at-law, Recorder of Ipswich, spoke of the bond between the profession of accountancy and his own. They were both concerned with "keeping things tidy" and with the proper basis of truth.

The Institute has its Problems

THE HULL, EAST Yorkshire and Lincolnshire Society of Chartered Accountants held its annual dinner at the Guildhall, Hull, on October 20. Among the guests were the Lord Mayor of Kingston-upon-Hull, Alderman K. Turner, J.P.; Sir John Braithwaite, Past Chairman of the London Stock Exchange; Mr. V. C. Ellison, M.C., T.D., Chairman, Cement Marketing Board; Mr. P. F. Granger, F.C.A., President of The Institute of Chartered Accountants in England and Wales; Mr. W. M. Allen, B.A., Under-Secretary of the Institute, and many other representatives of finance, commerce and professional bodies. The chair was taken by Mr. R. G. Slack, M.A., F.C.A., President of the Hull, East Yorkshire and Lincolnshire Society.

In proposing the toast of The Institute of Chartered Accountants in England and Wales, Sir John Braithwaite spoke of the opportunities in industry for the chartered accountant.

The choice of whether to enter or to stay out of the Common Market was probably the most momentous that the nation had ever been called upon to make. Whichever choice was made, we had hard and difficult years before us; we should have to face much keener competition than ever before.

In his reply to the toast, Mr. P. F. Granger, F.C.A., President of the Institute, said it had been a great privilege to listen to Sir John Braithwaite, who had been Chairman of the London Stock Exchange for ten years.

These were days, the President went on to say, when human beings organised themselves into large groups. The Institute had gone the same way and now had 35,000 members, with a backing of some 14,000 articulated clerks. Chartered accountants filled a very great variety of functions. Between one-third and one-quarter were in the practising side of the profession; overseas and retired members made up about one-fifth, and the remaining half were employed either in the profession or in industry, commerce or government.

Through its very size the Institute periodically had to review its activities. At the present time it was engaged on a full-scale inquiry into the difficulties and problems that afflicted the chartered accountant in practice in a small way. All district societies were being asked to co-operate in this, and the support already received would enable the Institute, he was confident, to see what action could appropriately be taken.

The Council had recently received a report from a special committee on education and training. In that report one thing stood out, and that was the continuing desirability of practical training in a practising accountant's office. For instance—as many of his hearers would undoubtedly have read in the report—two leading industrial organisations, Unilever and Imperial

Chemical Industries, had given the "apprenticeship system" their unqualified approval. Obviously, however, where views were held as strongly as this, there were bound to be others with equally strong views on the reverse side of the medal. Anything to do with education always seemed difficult, the President added mournfully, because everybody was sure he knew all about it.

Mr. Granger ended by saying how very pleased he was to see Mr. Charles Maxwell Strachan, whose resignation from the Council of the Institute had just been accepted with deep regret. Looking back, one could see how much the Institute owed to the work done by such provincial members. Mr. R. G. Slack, M.A., F.C.A., proposed the toast of the guests from the chair, and Mr. V. C. Ellison, M.C., T.D., replied.

"The Age of Figures"

THE LEEDS, BRADFORD and District Society held its annual dinner at the Queen's Hotel, Leeds, on October 27. Mr. J. S. Heaton, J.P., F.C.A., President, was in the chair. Among the guests were the Lord Mayor, Alderman P. A. Woodward, J.P.; Mr. Roy Borneman, Q.C.; Mr. K. Young, B.A., Editor of the *Yorkshire Post*; Mr. G. E. Birkenshaw, C.B.E., President of the Woollen & Worsted Trades Federation; Mr. P. F. Granger, F.C.A., President of The Institute of Chartered Accountants in England and Wales; Mr. V. Walton, F.C.A., and Mr. D. Steele, F.C.A., members of the Council; Mr. P. Carrel, C.M.G., O.B.E., B.A., Under-Secretary of the Institute; and representatives of finance, commerce, the Inland Revenue and the professions.

In proposing the toast of The Institute of Chartered Accountants in England and Wales, Mr. Roy Borneman, Q.C., said that the rapid growth of the profession of accountancy carried with it increasing responsibility as well as growing dignity, status and rights, but the Institute had appreciated over the years that big change carried with it far more responsibility than rights. Accountants came into closer touch with industry and commerce than anybody.

The way in which the profession had impinged upon commercial, industrial and financial life needed no emphasis. He did not know how many accountants were on the boards of public companies fifty or sixty years ago, but there would not have been a fraction as many as there were today.

The way in which chartered accountants had carried the ethics and etiquette of the profession into the boardroom had probably been the profession's biggest contribution since the First World War.

Each President of the Institute took strength from his predecessors and implanted his personality on his year. He hoped that Mr. Granger's successors would say that his was one of the great years of the Institute.

Responding, Mr. P. F. Granger, F.C.A., President of The Institute of Chartered

Accountants in England and Wales, said the Institute had been changing in a changing world. Expansion had been rapid in recent years; members were now filling functions which the Institute's founders never contemplated.

Accountants entered all forms of business activity. Articled clerks had the chance of climbing to the top of any tree, but it was up to them to see that the figures they dealt with correctly represented human activities and that they gave a true and fair view of any situation. Referring to the Institute's inquiry into what could be done for the benefit of those who preferred to practise on their own, Mr. Granger thought the profession had something to offer the individual at a time when the whole trend of life was towards the big unit.

In proposing the toast of the guests, Mr. Heaton referred to the special place that Leeds was coming to have in the world of the arts, as instanced by the recent Leeds Triennial Music Festival and the attention the *Yorkshire Post* was paying to the arts. He added that recently Mr. Granger had been the only official accountancy representative in Vienna at the meeting of the World Bank. That indicated the standing of the Institute.

Responding, the Lord Mayor of Leeds (Alderman P. A. Woodward, J.P.) said that the chartered accountant played a vital part in industry, and consequently in maintaining economic stability. The work of the accountant was carried out without the publicity which so frequently attached itself to the industrial magnate. There was never greater need for qualified and experienced men—faced as Britain was with increased foreign competition.

Mr. Kenneth Young, Editor of the *Yorkshire Post*, who also responded on behalf of the guests, said that this was the age of the accountant. The age of speech had turned into the age of figures.

No News Value in Accountants

THE ANNUAL BRIGHTON dinner of the South Eastern Society of Chartered Accountants was held at the Hotel Metropole on November 3. Mr. A. S. Watson, F.C.A., the President, took the chair and presided over a large company.

A special toast was drunk to H.R.H. The Princess Margaret and her baby son, born that morning.

Proposing the toast of The Institute of Chartered Accountants in England and Wales and the Accountancy Profession, Sir Graham Cunningham, K.B.E., said that nowadays all the leading men in industry seemed to be chartered accountants; they possessed the same skill, ability and integrity as the lawyers they seemed to be replacing, but accountants had also made a detailed and intensive study of such complicated matters as income tax and death duties. Accountants rendered a real service to their

clients, for they had learned not merely to present balance sheets but to make figures talk.

Mr. D. V. House, F.C.A., a past-President of the Institute, who was deputising for Mr. P. F. Granger, the President, replied to the toast. He spoke of the integration scheme, which had resulted in benefit to all concerned and had brought an influx of 10,000 new members to the Institute. Referring to the public relations aspect, Mr. House said the profession had little news value: news had to be "sad, sensational or thoroughly disgraceful." The best advertisement for the profession lay in hard work, integrity and achievement of purpose.

In welcoming the guests, Mr. F. Clifford Davey, F.C.A., added that the efforts of members were aimed at co-operating with and furthering the interests of the business world and the community as a whole—but necessity now forced them to send bigger bills to their clients.

The reply came from Mr. E. W. Gladstone, M.A., the new Headmaster of Lancing College, who said that education and training concerned all professions. He understood that accountancy was finding it difficult to recruit enough young men of the requisite standard, but the trouble was that every profession wanted the "cream" and there was just not enough to go round. He congratulated the profession on the marked improvement in the presentation of accounts—from the layman's viewpoint—that had taken place since the war.

The toast of the South Eastern Society of Chartered Accountants was proposed by Mr. David McCarraher, M.A., who told members that if articulated clerks were trained and treated properly, then other young men would wish to join their number.

Replying to the toast from the chair, Mr. Watson congratulated the Law Society on its booklet explaining the services offered by solicitors: chartered accountants should press for the production of a similar booklet to cover the numerous services they were qualified to give to their clients.

Delicacy and Charm

THE BRISTOL AND West of England Society held its annual dinner on November 2 at the Royal Hotel, Bristol. Among the guests were the Lord Mayor of Bristol, Alderman C. H. Smith, J.P., and the Sheriff, Alderman C. Marcus Hartnell; Mr. E. H. C. Leather, M.P. for North Somerset; Mr. H. Newton, F.C.I.S., member of the Council of the Building Societies Association; Professor Lloyd R. Amey, B.E.C., B.A., PH.D., Professor of Accounting at the University of Bristol; Mr. P. F. Granger, F.C.A., President of The Institute of Chartered Accountants in England and Wales; Mr. C. Croxton-Smith, M.A., LL.B., J.P., F.C.A., and Mr. F. J. Weeks, F.C.A., members of the Council of the Institute; Mr. C. A. Evan-Jones, M.B.E., Under-Secretary of the Institute, and many repre-

sentatives of finance, commerce, the Inland Revenue and the professions. Mr. W. E. Dewdney, F.C.A., President of the Society, was in the chair.

Proposing the toast of the City and County of Bristol, Mr. Newton hoped that they would preserve the traditions and pageantry that went with their historic past and price-less heritage.

In his acknowledgment the Lord Mayor, Alderman C. H. Smith, said that all those associated with local government knew and valued the services rendered to the public by chartered accountants.

Mr. E. H. C. Leather, M.P., who gave the toast of The Institute of Chartered Accountants in England and Wales, was of opinion that chartered accountants were possessed of such charm that they were able to tell people nothing at all with more delicacy than any other profession could muster.

In his reply Mr. P. F. Granger said he had been very pleased by the welcome publicity given to their profession on the brains trust programme recently. When asked what was the appropriate job, provided the questioner worked hard, to yield a good living at forty, an eminent schoolmaster replied without hesitation: chartered accountancy. That emphasised the opportunities membership of the Institute gave to anyone who was prepared to work hard to qualify and to work harder afterwards.

Recruitment was a constant problem. The undergraduate population was going to expand greatly in the next ten years, and they must have more and more recruits from that source. Through the variety of work done by its members, their profession played a substantial part in commercial life, and it was vital not only for them but for the country at large that they should have some of the best brains to train.

The opportunities for the right young man were never so great. There was a great university there in Bristol and he hoped that as the years went by the local accountants would form closer and closer links with it. As a profession accountants were dedicated to a true and fair view of figures and accounts, whether in industry or in practice: that approach was of the essence of an academic discipline. There was much thinking to be done on the nature of profit, for instance, and they needed new minds to produce new textbooks and new ideas.

It might be said that it was hard to expect a graduate with a good degree to work another three years for what in some places was regarded as a small reward, but if he was prepared to work hard, his membership of the Institute would take him into business or professional practice almost anywhere in the world. And when he qualified, the President hoped he would bear in mind that membership of the Institute was not limited to paying an entrance fee and an annual subscription. There was more than that to the profession.

The toast of the guests was proposed by Mr. W. E. Dewdney, F.C.A., from the chair. The Sheriff of Bristol, Alderman C. Marcus Hartnell, responded.

Chartered Accountants Employees Superannuation Scheme

A Report of the trustees to the Council of The Institute of Chartered Accountants in England and Wales

1. The third edition of the CAESS explanatory booklet has now been published.* The scheme has now been in existence for four years, and its popularity with members, both as employers and as employees, is evident from its continuing growth.

2. CAESS is particularly valuable to employees because of the facility which it offers in accumulating retirement benefits notwithstanding changes of employment. Participating firms have found that membership of CAESS is an aid to the recruitment of staff, and several firms have entered CAESS in order to meet the needs of a prospective employee who is already a member of CAESS.

3. Small firms have found the scheme particularly attractive because it offers the stability of a large fund while catering within the limits of its rules for the particular needs and preferences of the individual firm, including simplified machinery for contracting out of the graduated State pension scheme if so desired. The extent of the interest of the smaller firms is apparent from the following table of the position at May 31, 1961:

| Number of pensionable employees | Number of firms in CAESS | | |
|---------------------------------|--------------------------|-----------|-----------|
| | London | Provinces | Total |
| Up to 4 .. | 49 | 90 | 139 (65%) |
| 5 to 9 .. | 17 | 28 | 45 (21%) |
| 10 to 14 .. | 8 | 8 | 16 (8%) |
| 15 to 19 .. | 6 | 3 | 9 (4%) |
| 20 and over | 2 | 2 | 4 (2%) |
| | 82 | 131 | 213 |

4. Some larger firms are known to have hesitated over entry into CAESS because of possible difficulties over the treatment of existing private pension schemes. Many of the existing private schemes compare unfavourably with CAESS, and in such circumstances the experience of the scheme secretaries in devising arrangements for absorption or closure of such schemes on entering CAESS is at the disposal of practising members without commitment.

5. The trustees are in no doubt that CAESS offers important advantages to most practising members, whether their firms be large or small, and they hope that those who have not yet seriously considered the matter will consult the scheme secretaries.

S. H. GILLET

Chairman

Chartered Accountants Trustees Ltd.
Trustees of CAESS.

* The text of the booklet follows. The annual accounts and the Committee's report were published in the October issue of ACCOUNTANCY, pages 648-50.

Chartered Accountants Employees Superannuation Scheme

The text of the third edition (October, 1961) of the Explanatory Booklet. (Enquiries should be addressed to the Scheme Secretaries, Messrs. Bacon and Woodrow, 8 Boston Avenue, Southend-on-Sea.)

History of the Scheme

1. The scheme was constituted by a Trust Deed dated July 29, 1957. It became available for participating firms in August, 1957, and the first firms completed their membership of the scheme so as to contribute from October 1, 1957. It soon became apparent that although the rules were originally drafted to allow firms considerable freedom in deciding the basis of their participation in the scheme there was still not sufficient flexibility to meet the wishes of all the firms who showed an interest in the scheme. For this reason the rules of the scheme were revised in August, 1958, with effect from July 29, 1957. Further amendments were effected in September, 1960, so that the scheme became acceptable as an alternative to the graduated part of the National Insurance Scheme introduced by the National Insurance Act, 1959. The special provisions introduced for this purpose are described in paragraphs 29 to 31 of this booklet.

Administration

2. When the scheme was established the Council considered it inappropriate to involve the Institute in any guarantee of solvency. Chartered Accountants' Trustees Limited, a company which is also trustee of CARBS (the scheme for self-employed members) and is wholly owned by the Institute, was appointed trustee. As such it is responsible for the custody and management of the assets and has wide powers of investment of the moneys of the scheme.

3. The day-to-day management of the scheme is vested in a committee. This committee consists of a chairman and five representatives of the participating employers, all appointed by the Council, and five elected employee members who retire in rotation and are eligible for re-election. The scheme secretaries, Messrs. Bacon & Woodrow, act as secretaries to the committee.

Outline of the Scheme

Eligibility

4. Within the framework of the rules each firm has considerable discretion as to the terms upon which it participates. A firm wishing to join the scheme is asked to complete an application to participate setting out the necessary details and these are then incorporated in a participation agreement. Specimen drafts of the application form are obtainable from the scheme secretaries.

5. Subject to any special rules and conditions contained in the participation agreement, all permanent employees of participating employers are eligible for membership if they have attained age eighteen.

6. The committee may as a condition of entry insist on the payment of additional contributions. This power was originally incorporated in order that employees who entered the scheme at advanced ages could nevertheless be assured of substantial pensions. The contribution involved may be large and for this reason it is not now the practice to insist upon such a payment. The attention of employers and employees is, however, drawn to the fact that for entrants within ten years of pension age the pension secured by normal contributions will be very small. Any entrants at these ages would be well advised to examine the scales of benefit to ascertain how much pension they may expect.

Existing Funds

7. Special arrangements can be made for the absorption in whole or in part of participating employers' existing pension arrangements.

Retirement

8. The normal age of retirement is sixty-five for men and sixty for women. Earlier or later retirement may be arranged, with consequent adjustment of pension. An immediate pension will not be paid to a member retiring more than ten years before the normal age, except where retirement is on grounds of ill health.

Calculation of "Scheme Salary"

9. "Scheme Salary" in respect of each year commencing on the date on which the employer begins to participate in the scheme, or an anniversary of that date, is (subject to paragraph 10) the annual equivalent of basic salary at the beginning of that year.

Allowing for National Insurance Retirement Pension

10. Whether he contracts out of the graduated State scheme or not, an employer may if he so desires arrange that part of the salary is disregarded in calculating "scheme salary", thus making some allowance for the expectation of a retirement pension under the National Insurance Acts.

Basic Contributions

11. The basic contribution by each party is 5 per cent of "scheme salary", payable monthly. It is assumed that employers will deduct the employees' contributions from their remuneration as paid and the scheme provides for the total contributions from the firm and its employees to be paid monthly in arrear. It is possible to arrange for a series of twelve months' contributions to be covered by a banker's order.

Additional Contributions

12. Additional contributions may be paid

by the employer or by the member or by both, subject to the following restrictions:

- (a) No member may pay as a total contribution to the scheme an amount exceeding 15 per cent of his remuneration.
- (b) Normally a member may not commence to pay or increase his additional contributions when he is within ten years of pension age. A member may, however, commence to pay additional contributions when entering the scheme irrespective of his age.
- (c) In certain circumstances there is a limit on the amount of additional pension for which contributions may be paid either by the member or firm. The scheme secretaries will notify any firm if such a limit appears likely to be exceeded.

Tax Reliefs

13. Partial approval of the scheme by the Inland Revenue Authorities under Section 379, Income Tax Act, 1952, has been obtained and all normal contributions will be allowed as expenses for tax purposes. The tax allowance on special contributions by an employer may, however, be spread forward.

14. The only possible effect of the restriction on approval relates to interest earned on any part of the fund which is considered as relating to the provision of death benefits. Any such interest would be taxed at the standard rate, but the contribution rates are calculated to ensure that the part for death benefits shall be just sufficient to meet current claims. No fund should, therefore, be accumulated for death benefits and the approval of the fund is effectively complete.

Benefits

The Application of the Appendices

15. There are three appendices, designated A, B and C, under which the various contributions may be applied to secure pension. It will be appreciated that part of the contribution under Appendices A and B is absorbed in the provision of the appropriate benefit on death. The balance of the contribution is accumulated to provide the pension, and the amount of pension secured is as shown in each of the Appendices on pages 715-16. Any one of the Appendices may be used for employers' contributions (as shown below) but all members' contributions are payable under Appendix A and, if the member dies in service before pension age, they are refunded with interest. The difference between the three Appendices, so far as they are applied to employers' contributions, lies in the provision for benefit on the death of the member in service before pension age, as follows:

Appendix A

The firm is credited with its accumulated contributions, to be used for future contributions in respect of other employees.

Appendix B

A death benefit of one year's scheme salary is provided. This appendix can be used only for the firm's basic contributions of 5 per cent of scheme salary.

Appendix C

There is neither death benefit nor credit as the contribution is applied wholly to the provision of pension.

16. It is expected that the majority of firms will wish to participate on the terms that their basic contribution will be applied under Appendix B and will thus secure the death benefit of one year's scheme salary. The committee is unable to provide the cover for this benefit without first being satisfied that the members concerned are in a satisfactory state of health on admission or alternatively that sufficient employees of the particular firm enter the scheme to ensure that the risk is reasonably spread.

17. Accordingly evidence of health is not required if at least five employees are covered for the death benefit and membership is compulsory for employees other than those employed at the time of entry of the firm into the scheme.

18. It is also necessary that each employee who is to be covered for the death benefit shall be at work with his employer at the time when he becomes eligible for the cover. Any employee who is absent from work when he becomes eligible for membership cannot be covered until he has been back at work continuously for at least two months.

19. There are certain other circumstances in which special concessions as to evidence of health are made. These relate particularly to employees of firms which have wound up an existing scheme under which death cover was provided and to new employees already members of the scheme. The scheme secretaries will give details if required.

Provision for a Spouse or a Named Dependant

20. A member may, by not more than six months' notice, becoming effective at pension age (or earlier retirement), elect to take a reduced pension and thereby secure for his spouse or a named dependant a pension to be paid on his death. If an election is made under this provision the benefits described in paragraphs 21 and 22 will not be payable.

Death after Commencement of Pension

21. The death benefit for a member who dies while in receipt of a pension is a sum equal to the balance (if any) of five years' instalments of the member's pension. This benefit may by arrangement be varied within prescribed limits, and the pension increased or decreased accordingly.

Death after Pension Age and before Retirement

22. The death benefit for a member who dies after pension age and before retirement consists of a sum equal to five years' instalments of the pension which he would have received if he had retired immediately before his death.

Payment of Death Benefit

23. Death benefit will normally be paid to the member's personal representatives. Special arrangements can be made which are designed to mitigate liability to estate duty but this entails a certain measure of loss of control. Further information can be obtained from the scheme secretaries.

Retirement for Health Reasons

24. A member forced to retire before pension age on grounds of ill health will be entitled at his option to an immediate or to a deferred pension based upon the contributions paid by and in respect of him. In exceptional cases of serious ill health or where the pension would be trivial the pension may be commuted for a cash sum.

Changes of Employment

(See also paragraphs 29 to 31)

Transfer to an Employer outside CAESS

25. When a member of the scheme leaves the service of his employer he normally retains the right to the pension secured by his own contributions. If he has served for the necessary period stipulated in the participation agreement, which must not exceed five years, he has the right also to a paid-up pension based on the employer's contributions paid on his behalf. In either case, however, if the total of the basic contributions which he has paid does not exceed £100 he may ask for a refund, but in this case he forfeits the right to the benefit of the employer's contributions. In any case where a refund is paid to a member there is

Appendix A

(Applicable to all members' contributions and to participating firms' contributions paid on the terms that rule 15 (4) is to apply)
(Rules 7 (1) and 15 (4))

| (1) Age next birthday at commencement of scheme year | (2) Annual amount of pension com- mencing on day following attain- ment of pension age resulting from contributions amounting to £10 in a scheme year | |
|--|--|-------------------|
| | Males | Females |
| 18 | £ s. d. 6 10 2 | £ s. d. 3 17 8 |
| 19 | 6 6 2 | 3 15 9 |
| 20 | 6 1 0 | 3 12 9 |
| 21 | 5 16 1 | 3 9 10 |
| 22 | 5 11 4 | 3 7 0 |
| 23 | 5 6 9 | 3 4 4 |
| 24 | 5 2 4 | 3 1 9 |
| 25 | 4 18 2 | 2 19 3 |
| 26 | 4 14 2 | 2 16 11 |
| 27 | 4 10 3 | 2 14 7 |
| 28 | 4 6 7 | 2 12 5 |
| 29 | 4 3 0 | 2 10 4 |
| 30 | 3 19 7 | 2 8 4 |
| 31 | 3 16 4 | 2 6 5 |
| 32 | 3 13 2 | 2 4 6 |
| 33 | 3 10 2 | 2 2 8 |
| 34 | 3 7 3 | 2 1 0 |
| 35 | 3 4 6 | 1 19 4 |
| 36 | 3 1 10 | 1 17 9 |
| 37 | 2 19 4 | 1 16 3 |
| 38 | 2 16 10 | 1 14 9 |
| 39 | 2 14 6 | 1 13 5 |
| 40 | 2 12 3 | 1 12 1 |
| 41 | 2 10 1 | 1 10 9 |
| 42 | 2 8 0 | 1 9 6 |
| 43 | 2 6 0 | 1 8 4 |
| 44 | 2 4 2 | 1 7 3 |
| 45 | 2 2 4 | 1 6 2 |
| 46 | 2 0 7 | 1 5 1 |
| 47 | 1 18 11 | 1 4 1 |
| 48 | 1 17 4 | 1 3 1 |
| 49 | 1 15 9 | 1 2 2 |
| 50 | 1 14 4 | 1 1 4 |
| 51 | 1 12 11 | 1 0 6 |
| 52 | 1 11 7 | 19 8 |
| 53 | 1 10 3 | 18 11 |
| 54 | 1 9 0 | 18 2 |
| 55 | 1 7 10 | 17 5 |
| 56 | 1 6 9 | 16 9 |
| 57 | 1 5 8 | 16 1 |
| 58 | 1 4 7 | 15 6 |
| 59 | 1 3 8 | 14 11 |
| 60 | 1 2 8 | 14 2 |
| 61 | 1 1 10 | |
| 62 | 1 0 11 | |
| 63 | 1 0 2 | |
| 64 | 19 4 | |
| 65 | 18 2 | |

Appendix B

(Applicable to firms' basic contributions partly attributable to the provision of death benefit)
(Rules 5 (4) and 7 (1))

| (1) Age next birthday at commencement of scheme year | (2) Annual amount of pension com- mencing on day following attain- ment of pension age resulting from contributions amounting to £10 in a scheme year | |
|--|--|------------------|
| | Males | Females |
| 18 | £ s. d. 7 6 8 | £ s. d. 4 3 0 |
| 19 | 7 2 7 | 4 1 4 |
| 20 | 6 16 11 | 3 18 1 |
| 21 | 6 11 5 | 3 15 0 |
| 22 | 6 6 2 | 3 12 0 |
| 23 | 6 1 1 | 3 9 1 |
| 24 | 5 16 4 | 3 6 4 |
| 25 | 5 11 8 | 3 3 8 |
| 26 | 5 7 2 | 3 1 1 |
| 27 | 5 2 11 | 2 18 8 |
| 28 | 4 18 9 | 2 16 4 |
| 29 | 4 14 10 | 2 14 1 |
| 30 | 4 11 0 | 2 11 11 |
| 31 | 4 7 4 | 2 9 10 |
| 32 | 4 3 10 | 2 7 10 |
| 33 | 4 0 5 | 2 5 10 |
| 34 | 3 17 1 | 2 4 0 |
| 35 | 3 14 0 | 2 2 2 |
| 36 | 3 10 11 | 2 0 5 |
| 37 | 3 7 11 | 1 18 9 |
| 38 | 3 5 0 | 1 17 1 |
| 39 | 3 2 2 | 1 15 6 |
| 40 | 2 19 6 | 1 13 11 |
| 41 | 2 16 9 | 1 12 5 |
| 42 | 2 14 2 | 1 10 11 |
| 43 | 2 11 8 | 1 9 5 |
| 44 | 2 9 1 | 1 8 0 |
| 45 | 2 6 8 | 1 6 7 |
| 46 | 2 4 3 | 1 5 3 |
| 47 | 2 1 10 | 1 3 11 |
| 48 | 1 19 6 | 1 2 7 |
| 49 | 1 17 3 | 1 1 3 |
| 50 | 1 15 0 | 1 0 0 |
| 51 | 1 12 10 | 18 9 |
| 52 | 1 10 9 | 17 7 |
| 53 | 1 8 8 | 16 4 |
| 54 | 1 6 8 | 15 2 |
| 55 | 1 4 8 | 14 1 |
| 56 | 1 2 8 | 12 11 |
| 57 | 1 0 9 | 11 10 |
| 58 | 18 11 | 10 10 |
| 59 | 17 2 | 9 9 |
| 60 | 15 5 | 8 9 |
| 61 | 13 8 | |
| 62 | 12 0 | |
| 63 | 10 4 | |
| 64 | 8 9 | |
| 65 | 7 2 | |

For amounts other than £10 the pension will be proportionate.

a deduction from the amount of the contributions paid of $3\frac{1}{2}$ per cent for management expenses and interest is added at $2\frac{1}{2}$ per cent per annum on the basis laid down in the rules. There is also a deduction of an amount equal to the tax for which the trustees are responsible. Under present legislation this is calculated at a quarter of the standard rate.

Transfer to another Firm within CAESS

26. When an employee transfers to the service of another employer within

CAESS his membership is normally maintained even although he does not fulfil the eligibility conditions of the new employer. If his new employer has not joined the scheme, he can do so in respect of the transferring employee. The member may or may not retain the right to the previous employer's contributions, according to the conditions described in paragraph 25. In any case where the employee does not qualify for the benefit of the contributions paid by his employer a credit for the employer would be set up in the fund.

Employer's Credits

27. In the previous paragraph and also in paragraph 15 reference is made to a credit for the firm. The system of credits has been adopted because the Inland Revenue Authorities will not permit a refund to be paid to the firm. Once a credit has been established it must be used to pay the current contributions of the firm.

Members Commencing to Practise

28. The alternatives referred to in paragraph 25 will apply. Members of the Institute who are self-employed or are in non-pensionable employment in the United Kingdom may wish to enter the companion Chartered Accountants' Retirement Benefits Scheme.

Arrangements for Contracting Out under the National Insurance Act, 1939

29. The graduated part of the National Insurance Scheme was introduced by the

National Insurance Act, 1959, and requires employer's and employee's contributions in respect of all employees aged eighteen or over and earning more than £9 per week. The employer can contract his employees (or specified categories of them) out of the graduated scheme if he satisfies certain requirements, which include the provision of equivalent pension benefits under a private pension scheme. A special basis of participation in CAESS is available which meets the conditions precedent to contracting out and the scheme secretaries will furnish details to employers on request. Information about the graduated part of the National Insurance Scheme can be obtained from any National Insurance Office. (Official leaflets N.I.111 for employers and N.I.122 for employees will be of particular interest.)

30. The special basis of membership involves certain priorities over ordinary members in the event of winding-up and also an increased burden on the administration. A special fee of one guinea per annum is therefore charged for each special member. This does not secure additional benefits. In other respects the basis of contribution is normal but there are exceptional circumstances in which ordinary contributions can be insufficient to provide equivalent pension benefits and the committee will then require additional contributions to cover the position.

31. The conditions precedent to contracting out of the graduated State scheme require that, on a change of employment, equivalent pension benefits be preserved either within a private pension scheme or by a payment by the employer to the National Insurance Fund in lieu of contributions. For firms participating in CAESS the choice of alternative lies with the committee, which intends to preserve equivalent pension benefits within CAESS where membership of CAESS continues. Any payment in lieu of contributions will be made by the employer and will normally be recoverable from CAESS. In such circumstances there will be a reduction in the contributions returned to the employee. Where equivalent pension benefits are preserved in CAESS, one-half will be provided by the employer's contributions even if the employee would not otherwise be entitled to the benefit of such contributions.

Examples of Benefits

A member enters the scheme immediately before his twenty-fifth birthday and remains a contributing member until retirement at sixty-five. His commencing salary is £400 per annum and he receives annual increments of £20, giving a salary of £1,180 per annum in the final scheme year. Contributions of 5 per cent of the full salary are paid by himself and his employer. The following table sets out the benefits which could be obtained for him on the assumption that the firm's contributions had been applied under each of the various appendices:

Appendix C
(Applicable to firms' basic contributions not partly attributable to the provision of death benefit and to firms' other contributions paid on the terms that rule 15 (4) is not to apply)
(Rules 5 (4) and 7 (1))

| (1) Age next birthday at commencement of scheme year | (2) Annual amount of pension commencing on day following attainment of pension age resulting from contributions amounting to £10 in a scheme year | |
|--|--|---------|
| | Males | Females |
| | £ s. d. | £ s. d. |
| 18 | 7 12 8 | 4 6 11 |
| 19 | 7 8 7 | 4 4 9 |
| 20 | 7 2 8 | 4 1 5 |
| 21 | 6 17 0 | 3 18 2 |
| 22 | 6 11 6 | 3 15 0 |
| 23 | 6 6 3 | 3 12 0 |
| 24 | 6 1 3 | 3 9 2 |
| 25 | 5 16 5 | 3 6 5 |
| 26 | 5 11 9 | 3 3 9 |
| 27 | 5 7 4 | 3 1 2 |
| 28 | 5 3 0 | 2 18 9 |
| 29 | 4 18 11 | 2 16 5 |
| 30 | 4 15 0 | 2 14 2 |
| 31 | 4 11 2 | 2 12 0 |
| 32 | 4 7 6 | 2 9 11 |
| 33 | 4 4 0 | 2 7 11 |
| 34 | 4 0 8 | 2 6 0 |
| 35 | 3 17 5 | 2 4 2 |
| 36 | 3 14 4 | 2 2 5 |
| 37 | 3 11 4 | 2 0 8 |
| 38 | 3 8 6 | 1 19 1 |
| 39 | 3 5 9 | 1 17 6 |
| 40 | 3 3 1 | 1 16 0 |
| 41 | 3 0 6 | 1 14 6 |
| 42 | 2 18 1 | 1 13 1 |
| 43 | 2 15 8 | 1 11 9 |
| 44 | 2 13 4 | 1 10 5 |
| 45 | 2 11 2 | 1 9 2 |
| 46 | 2 9 0 | 1 7 11 |
| 47 | 2 6 11 | 1 6 9 |
| 48 | 2 4 11 | 1 5 7 |
| 49 | 2 3 0 | 1 4 6 |
| 50 | 2 1 1 | 1 3 5 |
| 51 | 1 19 3 | 1 2 5 |
| 52 | 1 17 6 | 1 1 5 |
| 53 | 1 15 9 | 1 0 5 |
| 54 | 1 14 2 | 19 6 |
| 55 | 1 12 6 | 18 7 |
| 56 | 1 11 0 | 17 8 |
| 57 | 1 9 5 | 16 10 |
| 58 | 1 7 11 | 15 11 |
| 59 | 1 6 6 | 15 2 |
| 60 | 1 5 1 | 14 4 |
| 61 | 1 3 9 | |
| 62 | 1 2 5 | |
| 63 | 1 1 1 | |
| 64 | 19 10 | |
| 65 | 18 7 | |

For amounts other than £10 the pension will be proportionate. Where contributions are not equal contributions paid on the last day of each scheme month during the scheme year the amount of pension will be determined by the Actuary.

Appendix D
(Early and late retirement factors)
(Rules 7 (3) and 8)

| Exact age at retirement or early retirement | Factor | |
|---|--------|---------|
| | Males | Females |
| 50 | | .555 |
| 51 | | .585 |
| 52 | | .618 |
| 53 | | .653 |
| 54 | | .691 |
| 55 | .500 | .732 |
| 56 | .532 | .777 |
| 57 | .567 | .825 |
| 58 | .606 | .878 |
| 59 | .648 | .937 |
| 60 | .693 | 1.000 |
| 61 | .743 | 1.068 |
| 62 | .798 | 1.141 |
| 63 | .849 | 1.222 |
| 64 | .926 | 1.311 |
| 65 | 1.000 | 1.408 |
| 66 | 1.083 | |
| 67 | 1.176 | |
| 68 | 1.280 | |
| 69 | 1.396 | |
| 70 | 1.527 | |

For retirements at ages intermediate between birthdays the age will be taken to the lower month and the appropriate factor found by interpolation in the table above. For retirements at ages outside the range specified in the table above and in cases where the pension does not commence on the day following retirement the appropriate factors will be determined by the Actuary.

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Firm's contributions applied under:
Appendix A Appendix B Appendix C

| | | | |
|--|--------|--------|--------|
| Retirement at age 65 | | | |
| Total pension per annum secured by member's and firm's contributions .. | £663 | £673 | £723 |
| Death at age 60 | | | |
| Member: | | | |
| Death benefit derived from the member's contributions (contributions paid plus interest) .. | 1,895 | 1,895 | 1,895 |
| Death benefit derived from the firm's contributions (one year's scheme salary) | — | 1,100 | — |
| Firm: | | | |
| Credit out of which future contributions for other members may be paid (contributions paid plus interest) .. | 1,895 | — | — |
| Total death benefit .. | £1,895 | £2,995 | £1,895 |
| Total credit for the firm .. | £1,895 | — | — |

District Societies

LIVERPOOL

THE COMMITTEE of the Liverpool Society recently invited Mr. E. M. Ormrod, F.C.A., to lunch with them in honour of his sixty years as a member of the Institute. The invitation also included his principal, Mr. H. Noel French, F.C.A., a nonagenarian who still attends the office daily.

NORTH YORKSHIRE AND SOUTH DURHAM BRANCH

THE NORTH YORKSHIRE and South Durham Branch of the Northern Society of Chartered Accountants held its twelfth annual dinner at Middlesbrough on November 8. Mr. K. A. Kindon, President of the Teesside and South-West Durham Chamber of Commerce, proposed the toast of The Institute of Chartered Accountants in England and Wales, to which the response was made by Mr. Bertram Nelson, C.B.E., F.C.A., a member of the Council. The toast of the guests was given by Mr. R. A. Branson, F.C.A., and Mr. Neil G. Forster, T.D., President of the Durham and North Yorkshire Law Society, replied.

OXFORD CHARTERED ACCOUNTANTS GROUP

THE OXFORD CHARTERED Accountants' Group held its fourth annual dinner on October 6, at University College. Dr. A. L. Goodhart (Master of the College) was a guest.

Mr. F. G. Harris, Chairman, welcomed the guests and introduced Mr. G. F. Ansell, Chairman of the London and District Society of Chartered Accountants, who spoke about the work of the Institute. Mr. J. L. Jones proposed the health of the guests, to which Dr. Goodhart replied. As the dinner coincided with his retirement, those present then drank the health of Mr. A. W. Chovil.

SOUTH EASTERN

Students' Residential Course

THE TWELFTH STUDENTS' Residential Course arranged by the South Eastern Society of Chartered Accountants was held at the Royal Pavilion, Brighton, from September 25 to 29 (Intermediate) and October 2 to 6 (Final). The total attendance was 180, including several students from the Channel Isles and a number from London.

Mr. A. S. Watson, F.C.A., President of the Society, introduced the course and presided at the dinners. Mr. R. P. Matthews, B.COM., F.C.A., J.P., and Mr. E. F. G. Whinney, M.A., F.C.A., members of the Council of the Institute, were the principal speakers at the Final and Intermediate Course dinners respectively.

The lectures and discussions were immensely beneficial to the students, whose attendance was facilitated by the co-operation of their principals.

SOUTHEND-ON-SEA GROUP

THE ANNUAL GENERAL meeting of the Southend-on-Sea Chartered Accountants Group was held at the West Cliff Hotel, Westcliff-on-Sea, on October 5. The Chairman reported a satisfactory year and a present membership of 78. The following officers were elected: Chairman, Mr. A. A. Stewart, A.C.A.; Vice-Chairman, Mr. S. Porter, F.C.A.; Secretary, Mr. M. A. Wren, A.C.A.; Treasurer, Mr. H. E. Hard, F.C.A.; Press, Mr. E. W. Matthams, F.C.A.; Committee, Mr. L. M. Keen, F.C.A., and Mr. E. H. R. Martin, F.C.A.

Hockey Match

THE ANNUAL HOCKEY match between members of the Law Society and Chartered Accountants was played at Surbiton on October 11. After a close contest, the Chartered Accountants won by five goals to three.

Sir James Martin Lodge

THE INSTALLATION MEETING of the Sir James Martin Lodge (formerly the Incorporated Accountants' Lodge) was held on October 24 at Freemasons' Hall, London, W.C.2. W. Bro. F. A. Roberts installed his successor, Bro. J. W. Pirie, M.B.E., as W.M. W. Bro. J. W. Pirie invested the following officers: Bro. E. A. Woods, S.W.; Bro. L. J. D. Jones, J.W.; W. Bro. C. V. Best, Treasurer; W. Bro. E. B. Trimmer, Secretary; W. Bro. E. J. P. Garratt, D.C.; Bro. E. J. Morris, S.D.; Bro. A. B. Sturgess, O.B.E., J.D.; W. Bro. A. V. Hussey, A.D.C.; W. Bro. J. C. Chaumeton, Almoner; W. Bro. G. J. Hakim, Organist; W. Bro. E. Downward, I.G.; Bro. H. N. Piper, Bro. R. Moorhouse, Bro. J. Ager, Bro. S. Ward, Stewards; W. Bro. A. C. Chitty, Tyler.

The address of the Secretary is 171 Petts Wood Road, Orpington, Kent.

Students' Society of London

President's Meeting

THE PRESIDENT'S MEETING of the Chartered Accountant Students' Society of London was held in Guildhall on October 18. The chair was occupied by the President, Mr. W. E. Parker, C.B.E., F.C.A.

The Lord Mayor of London (Sir Bernard Waley-Cohen) welcomed them all to ancient Guildhall. He wished to say how vital it was to be properly qualified before undertaking the responsibility of professional obligations. The students might think that some of the work that they were called upon to undertake in the years of training was trivial and unnecessary, but the absorption of the necessary know-how always seemed like that in every profession. Under their excellent system they had to have practical experience as well as theoretical knowledge and wide professional education, and he could not stress too highly the importance of all three aspects. (Applause.)

The Hon. George Drew, P.C., Q.C. (High Commissioner for Canada) said that no book of quotations that he could find contained any comments about accountants—amusing, critical or by way of praise. There were many quotations referring to lawyers or doctors, most of them highly derogatory. Nor did brokers and bankers fare much better. But not one, good or bad, could he find about accountants.

Never had we needed so greatly, in public as well as in private affairs, the most rigid insistence upon the plain unvarnished truth. More and more reliance was placed upon the accountant to examine all relevant facts so that business enterprises could plan their course ahead.

The future success of the Commonwealth demanded constant and precise examination of the facts, just as much as and perhaps more than any ordinary business. That was why the accountant's standards of accuracy should be applied to the recurring references in newspapers to declining Commonwealth trade. It was not true that Commonwealth trade was declining. The very opposite was the truth. In 1950 Britain exported to the Commonwealth goods to the value of £1,054,302,581. In 1960 British exports to the Commonwealth had increased to £1,499,078,035, an increase, and he emphasised an increase, of nearly £445 million. For the first eight months of this year the total value was £1,016 million, as compared with £996 million for the same period in 1960. He could not think what the attitude of any examiner would be to a student accountant who used those figures as evidence of a decline in Commonwealth trade.

British exports to Canada increased between 1950 and 1960 by more than 70 per cent, and Canadian exports to Britain by nearly 110 per cent. Nearly all that trade both ways was carried in British ships, and nearly all of the very substantial pay-

ments for insurance were paid to British companies.

There were still those who thought of Canada as primarily an agricultural country. That had not been true for many years. In 1950 agricultural production represented 11.6 per cent of the value of Canada's gross domestic product. In 1960 it represented 5.5 per cent. The truth was that it was the industrial nations, with their relatively high income, that had the greatest purchasing power and provided the best markets.

Last year Canada's total imports from all countries were valued at £1,860 million. It would be to the advantage of both countries if a larger share of that market could be supplied from Britain. But it could not be done except by hard selling, good quality, reasonable prices, prompt delivery, and efficient service. He hoped that many of them would visit Canada and see for themselves what the prospects were. If he might close with a word of advice, based on what he had seen happen in his own lifetime, it would simply be this, "Don't sell the Commonwealth short." (Applause.)

Mr. P. F. Granger, F.C.A. (President of the Institute) thanked Mr. Drew for his most interesting and stimulating and wonderful talk. (Acclamation.)

Speaking for the students, Mr. Harvey thanked Mr. Parker for everything he had done as President of the Society, and in particular for arranging that meeting. (Acclamation.)

Jersey Association of Practising Chartered Accountants

THE JERSEY ASSOCIATION of Practising Chartered Accountants held its fourth annual dinner at Hotel L'Horizon, Jersey, on October 28, under the chairmanship of Mr. W. T. Scarborough, F.C.A. The principal guests were The Lord Coutanche, Bailiff of Jersey, Mr. P. F. Carpenter, F.C.A., Vice-President of the Institute, and Mr. G. F. Ansell, F.C.A., Chairman of the London and District Society of Chartered Accountants.

Forthcoming Events

BIRMINGHAM

Members' Meetings

November 29.—"Taxation on Business Successions and Company Reconstructions," by Mr. J. E. Talbot, F.C.A. Queen's Hotel, 5.15 for 6 p.m.

December 18.—One-day Conference at Birmingham University.

Students' Meetings

Unless otherwise stated, all meetings are held at the Library, 36 Cannon Street, at 6 p.m.

November 28.—"The Uses of Electronic

Accounting" (with film), by Mr. Eric Goode, of International Computers and Tabulators Ltd.

December 1.—Annual Dinner. Grand Hotel.

December 5.—"Fire Insurance and Loss of Profits," by Mr. R. J. Walshe.

December 6.—Visit to the Birmingham Stock Exchange.

December 12.—"Professional Etiquette," by Mr. E. J. Newman, M.A., F.C.A.

December 13.—Visit to the Birmingham Law Courts (Assizes).

BOLTON

Members' Function

November 28.—Annual Dinner. Pack Horse Hotel.

BOURNEMOUTH

December 5.—Members' meeting. Devonshire Hotel, at 6 p.m.

BRADFORD

Members' Meeting

November 27.—Luncheon meeting. Victoria Hotel, 12.45 for 1 p.m.

BRIGHTON

Students' Meetings

All Saturday lectures are held in Conference Room 3, Royal Pavilion, at 10.30 a.m.

November 25.—"Law of Hire Purchase," by Mr. J. Lloyd-Eley, M.A.

December 2.—"Company Law—Memorandum and Articles," by Mr. R. D. Penfold, LL.B., barrister-at-law.

December 9.—Lecture and Demonstration by Mr. M. J. Brookman, of the National Cash Register Co., Ltd.

December 16.—"The English Judicial System," by Mr. A. J. Whiteside, M.A.

BRISTOL

Students' Function

December 4.—Annual Dinner. Royal Hotel, at 7.30 p.m.

CARDIFF

Students' Meetings

All meetings held at the Institute of Engineers, Park Place. Saturday morning lectures by Mr. Howard Jones, B.A., A.C.A., and Mr. Michael Evans, barrister-at-law, will be held at 9.30 a.m. (Final Law, Intermediate Accounts) and 11 a.m. (Final Accounts, Intermediate Law) throughout the session 1961/62.

December 1.—"The Accountant in Industry," by Mr. P. J. Tomblinson, 2 p.m.

CARLISLE

Students' Meetings

All meetings held at the County and Station Hotel.

December 1.—"Company Accounts" (Intermediate at 2.30 p.m.), "Consolidated Balance Sheets" (Final at 4.30 p.m.) and "Estate Duty" (Mixed at 7.30 p.m.), by Mr. V. S. Hockley, B.COM., C.A.

December 15.—"Mercantile Law" at 2.30 p.m., "Bankruptcy and Liquidations" at 4.30 p.m. and "Company Law" at 7 p.m., by Mr. R. D. Penfold, LL.B., barrister-at-law.

COLCHESTER

Members' Meeting

December 4.—"Arbitration," by Mr. V. G. Hines, barrister-at-law (followed by a Mock Arbitration). Officers' Club; supper at 6 p.m., meeting commencing at 6.45 p.m.

Students' Meeting

November 21.—Talk by Mr. V. G. Hines, barrister-at-law. Colchester Library, at 7.50 p.m.

COVENTRY

Members' Meeting

December 12.—Luncheon meeting: "An Accountant's Views of Uganda," by Dr. A. H. Marshall, C.B.E., F.S.A.A. Chace Hotel, London Road.

Students' Meetings

December 4.—"Company Flotations," by Mr. S. C. Mackay, A.C.A.

December 11.—Debate with Coventry Law Students' Society.

December 18.—"Taxation and the Family Company," by Mr. J. R. Mead, F.C.A., J.P.

DARLINGTON

Students' Meeting

November 22.—"Partnership Law," by Mr. E. Marsham, solicitor, Kings Head Hotel, at 6.15 p.m.

DERBY

Members' Meetings

November 29.—"The Basic Principle of Commercial Computers," by Mr. F. W. Purchall, of International Computers and Tabulators. Midland Hotel, 6.30 p.m.

December 6.—Lunch meeting: Mr. S. D. Wort, Chief Taxation Officer of Rolls Royce, speaking on a taxation subject. Ramsden's Café, 12.30 for 1 p.m.

EASTBOURNE

Students' Meetings

All lectures held at 10.30 a.m. at the Civil Defence Hall, Furness Road, unless otherwise stated.

December 2.—"Origins and Administration of English Law," by Mr. J. F. Chatfield.

December 16.—"Investigations," by Mr. R. S. Waldron, F.C.A.

EXETER

Members' Function

December 1.—Annual Dinner. Rougemont Hotel, at 7.30 p.m.

GRIMSBY

Students' Meetings

November 29.—Whole-Day Course with Mr. V. S. Hockley, B.COM., C.A., A.A.C.C.A. Royal Hotel.

December 6.—Visit to Punched Card Installation at the Yorkshire Electricity Board, at 7 p.m.

HASTINGS

Students' Meetings

All lectures held at 10.15 a.m. at the Yelton Hotel unless otherwise indicated.

November 25.—"Verification of Assets," by Mr. J. O. Elphick, F.C.A.

HUDDERSFIELD Members' Meetings

December 7.—Luncheon meeting: Informal Report of November meeting of the District Societies with the Council of the Institute, by President and Secretary of the Leeds, Bradford and District Society. Whiteley's Café, Westgate, 12.30 for 12.45 p.m.

December 7.—"Unit Trusts," by Mr. O. P. Stutchbury. George Hotel, 7.30 p.m.

HULL Students' Meetings

All meetings held at the Royal Station Hotel.
November 24.—"Losses and Subvention Payments," by Mr. C. G. A. Try, H.M. Inspector of Taxes. At 6.15 p.m.

December 1.—Students' evening.

December 8.—Visit to the Central Accounting Office of the Distillers Company. At 6.15 p.m.

ILFORD Students' Meeting

December 8.—"Mercantile Law—Agency," by Mr. Spencer G. Maurice, barrister-at-law. Conservative Club, 42 High Road, at 6.30 p.m.

IPSWICH Members' Function

November 22.—East Anglian Society, Ipswich & Colchester Branch Annual Dinner. Great White Horse Hotel.

KINGSTON-ON-THAMES Members' Meeting

December 4.—South-West London Discussion Group. Kingston Hotel, at 6.45 for 7 p.m.

LEEDS Members' Meeting

November 22.—"Taxation on Business Successions and Company Reconstructions," by Mr. J. E. Talbot, F.C.A. Conservative Club, 6.15 p.m.

LIVERPOOL Members' Function

November 24.—Annual Dinner. Adelphi Hotel.

Students' Meetings

November 23.—"This Profession of Ours," by Mr. J. F. Allan, F.C.A., Member of the Council of the Institute. The Library, 5 Fenwick Street, 5 p.m.

November 24.—Address by the President of the Institute. The Library, 5 Fenwick Street, 4 p.m.

LONDON Members' Meetings

All meetings held in the Oak Hall of the Institute at 6 p.m., unless otherwise stated.

December 1.—Annual Dinner of Women Chartered Accountants' Dining Society. Connaught Rooms, London, W.C.2, at 7 for 7.30 p.m.

December 11.—"Being Audited," by Mr. E. Hay Davison, F.C.A., Financial Director of G.E.C. By kind invitation of The Institute of Chartered Accountants of Scotland.

December 12.—"Valuation for Estate Duty

Purposes of Shares in Controlled Companies," by Mr. P. Vernon, a Chief Examiner of the Estate Duty Office.

Students' Meetings

All meetings held at Moorgate Place unless otherwise stated.

There will be visits to Fords Motor Works on November 21 and December 5, and films, lectures and demonstrations of punched card accounting on November 22 and 29 and December 6 (numbers limited).

November 20.—"Basis Periods under Schedule D," by Mr. Eric C. Meade, F.C.A. Winchester House, E.C.2, at 5.30 p.m.

November 23.—"Bankruptcy, Liquidation and Receivership," by Mr. R. Lowe. At 5.15 p.m.

November 23.—Joint Debate with Midland Bank Debating Society: "This House deplores the Space Rocket Racket." Midland Bank, Poultry, E.C.2, at 6 p.m.

November 24.—"Income Tax—General Introduction," by Mr. J. Kennedy Melling, F.C.A., and "The Law of Agreements and Damages," by Mr. R. Lowe. Winchester House, E.C.2, at 5.15 p.m.

November 28.—Mock Company Meeting at the Chartered Insurance Hall, 20 Aldermanbury, E.C.2. At 5.30 p.m.

November 28.—Debate: "This House Views the Future with Despair." At 6 p.m.

November 30.—"Taxable Income," by Mr. J. Kennedy Melling, F.C.A., and "The Law of Sale of Goods," by Mr. R. Lowe. Winchester House, E.C.2, at 5.15 p.m.

November 30.—"59 Club" annual general meeting. Students' Club, Beak Street, W.1, at 6 p.m.

December 5.—Dinner Debate: Mock Parliament. Students' Club, Beak Street, W.1, at 6 for 6.30 p.m.

December 11.—Annual Dinner, Grosvenor House, Park Lane, 6.30 for 7 p.m.

December 13.—Mechanised Accounting Course summing-up lecture, by Mr. Dudley W. Hooper, M.A., F.C.A.

December 15.—Christmas Dance. Lyceum, Wellington Street, W.C.2, at midnight.

LUTON

Students' Meetings

November 29.—"Auditing Machine Accounts, including Punched Cards," by Mr. J. Kennedy Melling, F.C.A. Luton and South Beds. College, 6.15 p.m.

December 11.—Annual Dinner. Royal Hotel.

MANCHESTER Members' Meetings

November 27.—"Commercial Fraud," by Detective-Inspector C. Horan (Manchester City Police, C.I.D., Commercial Branch). At 46 Fountain Street; 5.30 for 6 p.m.

December 12.—Discussion Group. "Some Possible Abuses of a Private Limited Company," by Mr. D. A. Smith, F.C.A. Board Room, 46 Fountain Street, 5.45 for 6 p.m.

Students' Meetings

Unless otherwise stated, meetings are held at 46 Fountain Street at 5.30 for 6 p.m.

December 7.—"The London Money Market and the Interpretation of Press Reports," by Mr. A. R. Ilesic, M.Sc.(ECON.), B.COM.

December 14.—"The Bank of England Today," by Mr. S. G. Barker, The Agent, Bank of England, Manchester.

MIDDLESBROUGH Students' Meeting

December 6.—Film Show ("Bank of England" and "Twentieth Century Touch"). Spark's Café Royal, 6.15 p.m.

NEWCASTLE UPON TYNE Students' Meetings

November 30.—"Branch Accounts," by Mr. V. S. Hockley, B.COM., C.A. Y.M.C.A., Blackett Street, at 6 p.m.

December 14.—"Bankruptcy Law," by Mr. R. D. Penfold, LL.B. Neville Hall, Westgate Road, at 6 p.m.

NOTTINGHAM Students' Meetings

All meetings are held in the Ballroom of the Elite Cinema, Parliament Street, at 5.30 p.m., unless otherwise stated.

November 22.—Joint Debate with the Leicester C.A.S.S.

November 29.—"Administration of the Income Tax Department," by Mr. L. T. Rouse, H.M. Inspector of Taxes.

December 6.—(1) "Evolution of the Law" and (2) "Divisible Profits," by Mr. A. J. Whiteside, M.A. Black Boy Hotel, at 4 p.m.

December 12.—Joint Debate with the Law Students. Bell Hotel, Old Market Square, at 6 p.m.

December 13.—Annual Dinner.

OXFORD

Students' Meetings

November 28.—"Partnership Assessments and Cession," by Mr. J. D. Wells, F.C.A. Clarendon Restaurant, George Street, at 6.30 p.m.

December 20.—"Accounts of Local Authorities," by Mr. D. G. Phillips, M.A., A.I.M.T.A. Clarendon Restaurant, George Street, at 6.30 p.m.

PLYMOUTH

Members' Meeting

December 7.—"The Small Practitioner." Discussion meeting for chartered accountants in practice. Grand Hotel, 5.30 p.m.

PORTSMOUTH Students' Meeting

December 12.—"Trust Accounts," by Mr. D. Rich, A.C.A. Central Electricity House, High Street, at 6 p.m.

READING

Students' Meetings

All meetings held at the Great Western Hotel at 7.15 p.m.

December 6.—"Partnership (Treatment of Goodwill and Dissolutions)," by Mr. A. B. Joseph, A.C.A., A.T.I.I.

December 21.—"Mechanised Accounting and the Auditor," by Mr. V. S. Hockley, B.COM., C.A., A.A.C.C.A.

RYDE, ISLE OF WIGHT**Students' Meeting**

November 24.—"Investigations for the Purpose of Purchasing a Business," by Mr. A. C. Simmonds, F.C.A. Royal York Hotel, 5.30 p.m.

SHEFFIELD**Members' Meeting**

November 23.—"Costing for Small Concerns," by Mr. W. Wheldon Wright, F.C.A. St. James's Club, at 5.30 p.m.

SOUTHEND-ON-SEA

December 7.—Annual Dinner of the Southend-on-Sea Chartered Accountants Group. Middleton Hotel.

STOKE-ON-TRENT**Students' Meeting**

December 8.—Buffet Dance. Borough Arms Hotel, Newcastle, Staffs.

SUNDERLAND**Students' Meetings**

November 9.—Soccer match: Northern Chartered Accountant Students' Society v. Sheffield C.A.S.S.

November 23.—A visit to Vaux and Associated Breweries. At 7 p.m.

SWANSEA**Students' Meeting**

November 20.—"Basic Principles of Computers," by Mr. F. W. Purchall (International Computers and Tabulators Ltd.). Joint meeting with the students of the Chartered Institute of Secretaries. Mackworth Hotel, at 7 for 7.30 p.m.

TRURO**Members' Meeting**

December 4.—"The Small Practitioner." Discussion meeting for chartered accountants in practice. Red Lion Hotel, 5.30 p.m.

WOLVERHAMPTON**Members' Meeting**

November 23.—"America," by Mr. Colin Jackson. Victoria Hotel, 5.30 p.m.

Students' Meeting

December 8.—"Departmental Store Management," by Mr. E. Foster (Director, James Beattie Ltd.).

YORK**Members' Meeting**

November 29.—Luncheon meeting. De Grey Rooms, 1 p.m.

Personal Notes

Messrs. Peat, Marwick, Mitchell & Co. (West Riding partnership) announce with regret that, after forty-two years' association with the firm, Mr. Kenneth S. Morrison has retired from the practice.

Messrs. Herbert Gimson & Son, Chartered Accountants, announce that they have

acquired the practice previously carried on by Mr. Harold Oxborrow and Mr. Percival W. Oxborrow under the name of Oxborrow, Sons & Co. They further announce that Mr. Herbert Gimson, F.C.A., has retired from the firm and that Mr. H. P. Carter, B.A., F.C.A., has been admitted to partnership. The firm will now be known as Gimson & Co. Mr. Herbert Gimson continues as consultant to the new firm and the office at 46 Ladbroke Square, London, W.11, will be maintained under his supervision until December 31, 1961, when the practice will be transferred to Charterhouse, London, E.C.1.

Messrs. Bedell & Blair, Chartered Accountants, Manchester, announce that they have taken into partnership Mr. Brian Tomlinson, who has been a member of the staff for some years. The firm continues as previously under the same style.

Mr. Peter J. Dickerson, B.Sc.(ECON.), A.C.A., has been awarded a one-year teaching assistantship at the University of California. Mr. Dickerson, a graduate of the London School of Economics, obtained first place in the Final examination of the Institute of Cost and Works Accountants, and sixth place in the May, 1961, Final examination of The Institute of Chartered Accountants in England and Wales.

Mr. Kenneth Gordon Lyon, F.C.A., practising as Louis Nicholas & Co., Chartered Accountants, Liverpool, announces that he has taken into partnership his son, Mr. M. G. Lyon, A.C.A., and also Mr. H. G. Bayley, F.C.A., Mr. J. R. Philp, F.C.A., and Mr. J. B. D. Lowe, A.C.A., who have been senior members of his staff for many years. The style of the firm remains unchanged.

Messrs. McClelland, Moores & Co., Chartered Accountants, London and Liverpool, announce that they have taken into partnership Mr. Andrew Gordon Biggart, C.A., and Mr. Samuel Stevenson, Jr., C.A.

Messrs. McClelland, Moores & Co., Chartered Accountants, Glasgow, announce that they have taken into partnership Mr. Robert Young Smith.

Mr. James P. Cunningham, A.C.A., has entered into partnership in his father's firm of P. J. Cunningham & Co., Leicester.

Mr. A. McBroom, F.A.C.C.A., and Mr. J. S. Haywood, F.C.A., the partners of McBroom, Haywood & Co., Sheffield, announce that, by mutual agreement, the partnership has been dissolved. Mr. McBroom has taken into partnership his son, Mr. A. I. McBroom, A.C.A., and the new firm will practise under the style of McBroom & Co. at the same address. Mr. Haywood has taken into partnership his brother, Mr. P. R. Haywood, A.C.A., and they will practise under the style of Haywood & Haywood at 22 Wilkinson Street, Sheffield 10, and 29A High Street, Rotherham.

Mr. W. Robson, F.C.A., has been elected a director of the Lumnus Company Limited, London, W.1.

Price Waterhouse & Co. and Hunter, Smith & Earle announce the formation of a joint firm practising in Trinidad and Tobago under the name of Price Waterhouse & Co., the resident partners being Mr. L. E. Roper, F.C.A., Mr. T. J. Hort, F.C.A., Mr. F. L. de Verteuil, F.C.A., and Mr. G. W. Smith, F.C.A. The resident partners also continue to practise under their old firm name of Hunter, Smith & Earle.

Price Waterhouse & Co. and Carman & Bruce announce the formation of a joint firm practising in Jamaica under the name of Price Waterhouse & Co., the resident partners being Mr. H. C. Nunes, F.C.A., Mr. G. W. N. Downer, F.C.A., Mr. R. C. Humphries, F.C.A., Mr. J. D. Ashenheim, A.C.A., and Mr. J. F. L. Lord, A.C.A. The resident partners also continue to practise under their old firm name of Carman & Bruce.

Price Waterhouse Peat & Co., Pakistan firm, announce that they have admitted to partnership Mr. D. J. Belton, B.COMM., A.C.A., and Mr. Rezaur Rahman, A.S.A.A., who are resident partners in Chittagong and Dacca respectively.

Mr. Russell E. Benjamin, F.C.A., has been appointed financial director of Remploi Limited, the Government-sponsored company which provides employment for severely disabled people. He was previously deputy financial director.

Cooper Brothers & Co. and Coopers & Lybrand announce that they have opened an office at Barclays Bank Building, Main Street, Mufulira, Northern Rhodesia.

Messrs. Ernest Francis & Son, Chartered Accountants, Reading and Basingstoke, announce the retirement of their senior partner, Mr. O. S. Francis, M.C., F.C.A., J.P., after an association with the firm of over 47 years. The practice is being continued under the same firm name by the remaining partners with the addition of Mr. J. S. Short, A.C.A., who is in charge of the branch office in Basingstoke.

Messrs. G. L. Hirst & Co., Chartered Accountants, Dewsbury, advise us of the regretted death of Mr. G. L. Hirst, F.C.A., who was eighty years of age and had been in practice for fifty-two years. The practice is being continued under the same name by the surviving partner, Mr. E. Bentley, F.C.A.

Removals

Messrs. Garnett, Crewdson & Co., Chartered Accountants, announce that their address is now Derby House, 12/16 Booth Street, Manchester, 2.

Messrs. Blick Rothenberg & Noble have moved their offices to 7 Fitzroy Square, London, W.1.

Messrs. Heaton, Lumb, Lisle & Co. advise that the address of their Leeds office has been changed to 31 Oxford Row, Leeds, 1.

Classified Advertisements

Advertisements under "Appointments Vacant," "Appointments Required," "Articled Clerks"—six shillings per line. Under "Practices and Partnerships," "Official Notices," "Miscellaneous" and other headings—eight shillings per line. Minimum five lines (seven words per line). Box numbers—five shillings extra (including the five words in the advertisement). Semi-display panels—£4 10s. per column inch. All terms prepaid. Replies to Box Number advertisements should be addressed Box No. . . ., c/o ACCOUNTANCY, Moorgate Place, London, E.C.2, unless otherwise stated. It is requested that the Box Number be also placed at the bottom left-hand corner of the envelope.

DELOITTE, PLENDER, GRIFFITHS & CO., 5 London Wall Buildings, London, E.C.2, have vacancies on their audit staff for young qualified accountants. Opportunities to transfer abroad in due course. Five-day week, luncheon vouchers and pension scheme.

APPOINTMENTS REGISTER OF THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

Employers who have vacancies for members on their staffs and also members seeking new appointments are invited to make use of the facilities provided by the Institute's Appointments Register. No fees are payable. All enquiries should be addressed to the Appointments Officer, Moorgate Place, London, E.C.2. Tel. Moorgate 5644.

APPOINTMENTS VACANT

Applications are invited from young qualified accountants preferably with a background interest and knowledge in agriculture or horticulture for an executive position with an old established company with three major activities:

- I Distribution of horticultural produce to local retail trade in Yorkshire.
- II Operation of a fruit packing station in Cambridgeshire and distribution of home and imported produce to the wholesale trade and to multiple retailers, on a nation-wide basis.
- III Management of a Broiler Chicken production unit, with associated wholesale poultry business.

Box No. 127, c/o ACCOUNTANCY.

A REALLY EXPERIENCED senior is required by well known City Chartered Accountants. A good post, with first-class experience, pay and prospects. Tell us about yourself. Box No. 117, c/o ACCOUNTANCY.

A REALLY GOOD POST with prospects awaits experienced senior. City C.A.s offer top salary, interesting varied work, congenial colleagues. An opportunity to advance. Box 133, c/o ACCOUNTANCY.

CHARTERED ACCOUNTANT, aged 25-35, required by old established dyers and cleaning business in Newcastle upon Tyne. This is a new post carrying excellent prospects for advancement. Commencing salary £800. Box. No. 130, c/o ACCOUNTANCY.

AUDIT CLERKS. Many vacancies waiting for Senior, Semi-senior or Junior. Call BOOTH'S AGENCY, 80 Coleman St., Moorgate E.C.2.

CHARTERED ACCOUNTANTS — Price Waterhouse & Co., 3 Frederick's Place, Old Jewry, London, E.C.2, have vacancies for young qualified accountants. Excellent prospects and opportunities for broadening experience in the profession. 5-day week, luncheon vouchers and pension scheme.



ACCOUNTANTS

Applications are invited from recently qualified accountants with professional experience for appointments in the Executive Officer Grade in the Finance Directorate of the United Kingdom Atomic Energy Authority at Risley. The appointments will provide experience of modern accounting methods in a large organisation with many novel features of management accounting practice.

The successful applicants will be expected to work in co-operation with scientific and technical staff. Administrative ability and the capacity to direct junior staff will be required.

Starting salaries will be assessed by age up to £975 on a scale rising to £1,235 per annum. Contributory Superannuation. Housing Assistance Schemes.

Send postcard for application form, quoting reference S.16/J132, to:

The Appointments Officer, Room B.57

U. K. A. E. A.

Reactor Group Headquarters,
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